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 March 31, 2019

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 of other jurisdiction of incorporation or organization)**	**90-0023731** **(I.R.S. Employer Identification No.)**
10603 W. Sam Houston Parkway N., Suite 300 **Houston, TX** **(Address of principal executive offices)**	**77064** **(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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value	FTK	New York Stock Exchange

As of April 30, 2019, there were 57,463,627 outstanding shares of Flotek Industries, Inc. common stock, $0.0001 par value.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 96,753	$ 3,044
Restricted cash	660	—
Accounts receivable, net of allowance for doubtful accounts of $1,465 and $1,190 at March 31, 2019 and December 31, 2018, respectively	37,178	37,047
Inventories, net	34,358	27,289
Income taxes receivable	3,351	3,161
Assets held for sale	—	118,470
Other current assets	20,373	5,771
Total current assets	192,673	194,782
Property and equipment, net	42,989	45,485
Operating lease right-of-use assets	18,202	—
Deferred tax assets, net	599	18,663
Other intangible assets, net	24,978	26,827
Other long-term assets	3,351	126
TOTAL ASSETS	$ 282,792	$ 285,883
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 13,798	$ 15,011
Accrued liabilities	12,518	10,335
Income taxes payable	2,054	—
Interest payable	—	8
Liabilities held for sale	—	9,174
Current portion of lease liabilities	713	—
Long-term debt, classified as current	—	49,731
Total current liabilities	29,083	84,259
Operating lease liabilities	18,416	—
Finance lease liabilities	130	—
Deferred tax liabilities, net	116	—
Total liabilities	47,745	84,259
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.0001 par value, 80,000,000 shares authorized; 62,198,912 shares issued and 57,462,355 shares outstanding at March 31, 2019; 62,162,875 shares issued and 57,342,279 shares outstanding at December 31, 2018	6	6
Additional paid-in capital	344,004	343,536
Accumulated other comprehensive income (loss)	(1,022)	(1,116)
Retained earnings (accumulated deficit)	(74,573)	(107,565)
Treasury stock, at cost; 3,845,173 and 3,770,224 shares at March 31, 2019 and December 31, 2018, respectively	(33,368)	(33,237)
Total stockholders' equity	235,047	201,624
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 282,792	$ 285,883

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 March 31, 2019	Three months ended March 31, 2018
Revenue	$ 43,256	$ 41,069
Costs and expenses:		
Operating expenses (excluding depreciation and amortization)	44,599	36,655
Corporate general and administrative	7,281	8,493
Depreciation and amortization	2,260	2,333
Research and development	2,285	2,754
Loss on disposal of long-lived assets	1,097	57
Total costs and expenses	57,522	50,292
Loss from operations	(14,266)	(9,223)
Other (expense) income:		
Interest expense	(1,998)	(516)
Other income (expense), net	110	(111)
Total other expense	(1,888)	(627)
Loss before income taxes	(16,154)	(9,850)
Income tax benefit	774	322
Loss from continuing operations	(15,380)	(9,528)
Income from discontinued operations, net of tax	48,372	9,595
Net income	$ 32,992	$ 67
Basic earnings (loss) per common share:		
Continuing operations	$ (0.26)	$ (0.17)
Discontinued operations, net of tax	0.83	0.17
Basic earnings (loss) per common share	$ 0.57	$ —
Diluted earnings (loss) per common share:		
Continuing operations	$ (0.26)	$ (0.17)
Discontinued operations, net of tax	0.83	0.17
Diluted earnings (loss) per common share	$ 0.57	$ —
Weighted average common shares:		
Weighted average common shares used in computing basic earnings (loss) per common share	58,373	57,259
Weighted average common shares used in computing diluted earnings (loss) per common share	58,373	57,259

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

FLOTEK INDUSTRIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Three months ended March 31,	
	2019	**2018**
Loss from continuing operations	$ (15,380)	$ (9,528)
Income from discontinued operations, net of tax	48,372	9,595
Net income	32,992	67
Other comprehensive income (loss):		
Foreign currency translation adjustment	94	(179)
Comprehensive income (loss)	$ 33,086	$ (112)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2019	**2018**
Cash flows from operating activities:		
Net income	$ 32,992	$ 67
Income from discontinued operations, net of tax	48,372	9,595
Loss from continuing operations	(15,380)	(9,528)
Adjustments to reconcile loss from continuing operations to net cash used in by operating activities:		
Depreciation and amortization	2,260	2,333
Amortization of deferred financing costs	1,428	96
Provision for doubtful accounts	366	(43)
Provision for excess and obsolete inventory	—	1,305
Loss on disposal of long-lived assets	1,097	57
Non-cash lease expense	230	—
Stock compensation expense	456	1,899
Deferred income tax provision (benefit)	17,860	(7,662)
Reduction in tax benefit related to share-based awards	24	3
Changes in current assets and liabilities:		
Restricted cash	(660)	—
Accounts receivable, net	(474)	1,715
Inventories, net	(7,031)	5,729
Income taxes receivable	(247)	(1)
Other current assets	(18,661)	331
Accounts payable	(1,216)	(781)
Accrued liabilities	(8,193)	(7,599)
Income taxes payable	2,428	—
Interest payable	(8)	(37)
Net cash used in operating activities	(25,721)	(12,183)
Cash flows from investing activities:		
Capital expenditures	(461)	(1,377)
Proceeds from sales of business	169,722	—
Proceeds from sale of assets	132	80
Purchase of patents and other intangible assets	(103)	(117)
Net cash provided by (used in) investing activities	169,290	(1,414)
Cash flows from financing activities:		
Borrowings on revolving credit facility	42,984	76,266
Repayments on revolving credit facility	(92,715)	(64,475)
Debt issuance costs	—	(8)
Purchase of treasury stock related to share-based awards	(131)	(3)
Proceeds from sale of common stock	—	146
Net cash provided by (used in) financing activities	(49,862)	11,926
Discontinued operations:		
Net cash (used in) provided by operating activities	(337)	430
Net cash provided by (used in) investing activities	337	(430)
Net cash flows provided by discontinued operations	—	—
Effect of changes in exchange rates on cash and cash equivalents	2	(48)
Net increase (decrease) in cash and cash equivalents	93,709	(1,719)
Cash and cash equivalents at the beginning of period	3,044	4,584
Cash and cash equivalents at the end of period	$ 96,753	$ 2,865

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended March 31, 2019								
	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interests	Total Equity
	Shares Issued	Par Value	Shares	Cost					
Balance, December 31, 2018	62,163	$ 6	3,770	$ (33,237)	$ 343,536	$ (1,116)	$ (107,565)	$ —	$ 201,624
Net income	—	—	—	—	—	—	32,992	—	32,992
Foreign currency translation adjustment	—	—	—	—	—	94	—	—	94
Restricted stock granted	36	—	—	—	—	—	—	—	—
Restricted stock forfeited	—	—	34	—	—	—	—	—	—
Treasury stock purchased	—	—	41	(131)	—	—	—	—	(131)
Stock compensation expense	—	—	—	—	468	—	—	—	468
Balance, March 31, 2019	62,199	$ 6	3,845	$ (33,368)	$ 344,004	$ (1,022)	$ (74,573)	$ —	$ 235,047

	Three months ended March 31, 2018								
	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interests	Total Equity
	Shares Issued	Par Value	Shares	Cost					
Balance, December 31, 2017	60,623	$ 6	3,621	$ (33,064)	$ 336,067	$ (884)	$ (37,225)	$ 358	$ 265,258
Net income	—	—	—	—	—	—	67	—	67
Foreign currency translation adjustment	—	—	—	—	—	(179)	—	—	(179)
Stock issued under employee stock purchase plan	—	—	(28)	—	146	—	—	—	146
Restricted stock granted	538	—	—	—	—	—	—	—	—
Restricted stock forfeited	—	—	5	—	—	—	—	—	—
Treasury stock purchased	—	—	1	(3)	—	—	—	—	(3)
Stock compensation expense	—	—	—	—	1,924	—	—	—	1,924
Balance, March 31, 2018	61,161	$ 6	3,599	$ (33,067)	$ 338,137	$ (1,063)	$ (37,158)	$ 358	$ 267,213

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Note 1 — Organization and Significant Accounting Policies

Organization and Nature of Operations

Flotek Industries, Inc. ("Flotek" or the "Company") is an international energy chemistry technology-driven company that develops and supplies chemistry and services to the oil and gas industry. Flotek also supplied high value compounds to companies that make food and beverages, cleaning products, cosmetics, and other products that are sold in consumer and industrial markets, classified as discontinued operations at December 31, 2018.

The Company's oilfield business includes specialty chemistries and logistics which enable its customers to pursue improved efficiencies in the drilling and completion of their wells. The Company also provides automated bulk material handling, loading facilities, and blending capabilities. In the segment reported as discontinued operations at December 31, 2018, the Company processed citrus oil to produce (1) high value compounds used as additives by companies in the flavors and fragrances markets and (2) environmentally friendly chemistries for use in numerous industries around the world, including the oil and gas ("O&G") industry.

Flotek operates in over 15 domestic and international markets. Customers include major integrated O&G companies, oilfield services companies, independent O&G companies, pressure-pumping service companies, national and state-owned oil companies, and international supply chain management companies. The Company also served customers who purchase non-energy-related citrus oil and related products, including household and commercial cleaning product companies, fragrance and cosmetic companies, and food manufacturing companies, reported as discontinued operations at December 31, 2018.

Flotek was initially incorporated under the laws of the Province of British Columbia on May 17, 1985. On October 23, 2001, Flotek changed its corporate domicile to the state of Delaware.

Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements and accompanying footnotes (collectively 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 ("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 ("U.S. GAAP") for comprehensive financial statement reporting. These interim Financial Statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 ("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 on Flotek's website, *www.flotekind.com*. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019.

During the fourth quarter of 2018, the Company classified the Consumer and Industrial Chemistry Technologies segment as held for sale based on management's intention to sell this business. The Company's historical financial statements have been revised to present the operating results of the Consumer and Industrial Chemistry Technologies segment as discontinued operations. The results of operations of this segment are presented as "Income from discontinued operations" in the statement of operations and the related cash flows of this segment has been reclassified to discontinued operations for all periods presented. The assets and liabilities of the Consumer and Industrial Chemistry Technologies segment have been reclassified to "Assets held for sale" and "Liabilities held for sale", respectively, in the consolidated balance sheet for all periods presented.

All significant intercompany accounts and transactions have been eliminated in consolidation. The Company does not have investments in any unconsolidated subsidiaries.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of lease liabilities, and operating lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment, current portion of lease liabilities, and finance lease liabilities in the consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The lease term is modified to reflect options to extend or terminate the lease when it is reasonably certain the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has some lease agreements that contain both lease and non-lease components. The Company has elected to account for such leases as having a single lease component.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenue and expenses. Actual results could differ from these estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. The reclassifications did not impact net loss.

Note 2 — Recent Accounting Pronouncements

Application of New Accounting Standards

Effective January 1, 2019, the Company adopted the accounting guidance in Accounting Standards Update ("ASU") No. 2016-02, "*Leases*." This standard (ASC 842) requires the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP (ASC 840). The Company adopted ASC 842 using the optional transition method. Consequently, the Company's reporting for the comparative periods presented prior to 2019 in the financial statements will continue to be in accordance with ASC 840. Upon adoption, the Company recorded operating lease ROU assets and corresponding operating lease liabilities, net of deferred rent, of approximately $18.4 million, representing the present value of future lease payments under operating leases with terms of greater than twelve months. The adoption of this standard did not have a material impact on the consolidated statements of operations or cash flows. Refer to Note 4 — "Leases" for further information surrounding adoption of this new standard.

Effective January 1, 2019, the Company adopted ASU No. 2018-02, "*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*." This standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act. Implementation of this standard did not have a material effect on the consolidated financial statements and related disclosures.

Effective January 1, 2019, the Company adopted ASU No. 2018-07, "*Improvements to Nonemployee Share-Based Payment Accounting*." This standard expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Implementation of this standard did not have a material effect on the consolidated financial statements and related disclosures.

New Accounting Requirements and Disclosures

In June 2016, the FASB issued ASU No. 2016-13, "*Measurement of Credit Losses on Financial Instruments*." This standard replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The pronouncement is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption for the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, "*Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*." This standard removes, modifies, and adds additional requirements for disclosures related to fair value measurement in ASC 820. The pronouncement is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted in any interim period. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

Note 3 — Discontinued Operations

During the fourth quarter of 2018, the Company initiated and began executing a strategic plan to sell its Consumer and Industrial Chemistry Technologies ("CICT") segment. An investment banking advisory services firm was engaged and actively marketed this segment.

The Company met all of the criteria to classify the CICT segment's assets and liabilities as held for sale in the fourth quarter 2018. The Company has classified the assets, liabilities, and results of operations for this segment as "Discontinued Operations" for all periods presented.

Disposal of the CICT reporting segment represented a strategic shift that will have a major effect on the Company's operations and financial results.

On January 10, 2019, the Company entered into a Share Purchase Agreement with Archer-Daniels-Midland Company ("ADM") for the sale of all of the shares representing membership interests in its wholly owned subsidiary, Florida Chemical Company, LLC, which represented the CICT segment.

Effective February 28, 2019, the Company completed the sale of the CICT segment to ADM for $175.0 million in cash consideration, with $4.4 million temporarily held in escrow by ADM for post-closing working capital adjustments for up to 90 days and $13.1 million temporarily held in escrow to satisfy potential indemnification claims by ADM with anticipated releases at 6 months, 12 months, and 15 months.

Concurrent with the closing of the sale of the CICT segment, the Company retained $11.1 million of historical inventory previously held by the CICT segment. In addition, the Company executed a long-term supply agreement for terpene product through September 2023, with an option to extend for an additional year. This agreement secures the Company's access to a sufficient supply of terpene and includes a minimum annual purchase requirement during the term of the agreement.

The following summarized financial information has been segregated from continuing operations and reported as Discontinued Operations for the three months ended March 31, 2019 and 2018 (in thousands):

	Three months ended March 31,	
	2019	2018
Consumer and Industrial Chemistry Technologies		
Revenue	$ 11,031	$ 19,447
Operating expenses	(11,572)	(16,170)
Depreciation and amortization	—	(669)
Research and development	(69)	(170)
(Loss) income from operations	(610)	2,438
Other income (expense)	35	(174)
Gain on sale of business	69,793	—
Income before income taxes	69,218	2,264
Income tax (expense) benefit	(20,846)	7,331
Net income from discontinued operations	$ 48,372	$ 9,595

The assets and liabilities held for sale on the Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018, are as follows (in thousands):

	Consumer and Industrial Chemistry Technologies	
	March 31, 2019	December 31, 2018
Assets:		
Accounts receivable, net	$ —	$ 10,547
Inventories, net	—	52,069
Other current assets	—	446
Property and equipment, net	—	15,899
Goodwill	—	19,480
Other intangible assets, net	—	20,029
Assets held for sale	—	118,470
Valuation allowance	—	—
Assets held for sale, net	$ —	$ 118,470
Liabilities:		
Accounts payable	$ —	$ 8,883
Accrued liabilities	—	291
Liabilities held for sale	$ —	$ 9,174

Note 4 — Leases

Effective January 1, 2019, the Company adopted ASC 842 using the prospective method applied to those leases which were not completed as of December 31, 2018. The Company has operating leases for corporate offices, research and development facilities, warehouses, and sales offices. The leases have remaining lease terms of 1 year to 19 years, some of which include options to extend the leases for up to 10 years. In addition, the Company has finance leases for equipment. These leases commenced on March 31, 2019 and have remaining lease terms of 64 months. There have been no payments or any expense recognized in connection with these finance leases as of March 31, 2019.

Upon adoption, the Company recorded operating lease ROU assets and corresponding operating lease liabilities, net of deferred rent, of approximately $18.4 million, representing the present value of future lease payments under operating leases with terms of greater than twelve months. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term.

The components of lease expense and supplemental cash flow information are as follows (in thousands):

	Three months ended March 31,
	2019
Operating lease expense	$ 653
Short-term lease expense	43
Total lease expense	$ 696
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 582

Maturities of lease liabilities are as follows (in thousands):

Year ending December 31,	Operating Leases	Finance Leases
2019 (excluding the three months ended March 31, 2019)	$ 1,756	$ 29
2020	2,346	39
2021	2,305	39
2022	2,269	39
2023	2,178	39
Thereafter	25,859	22
Total lease payments	$ 36,713	$ 207
Less: Interest	(17,621)	(40)
Present value of lease liabilities	$ 19,092	$ 167

Supplemental balance sheet information related to leases is as follows (in thousands):

	March 31, 2019
Operating Leases	
Operating lease right-of-use assets	$ 18,202
Current portion of lease liabilities	$ 676
Operating lease liabilities	18,416
Total operating lease liabilities	$ 19,092
Finance Leases	
Property and equipment	$ 210
Accumulated depreciation	—
Property and equipment, net	$ 210
Current portion of lease liabilities	$ 37
Finance lease liabilities	130
Total finance lease liabilities	$ 167
Weighted Average Remaining Lease Term	
Operating leases	15.7 years
Finance leases	5.3 years
Weighted Average Discount Rate	
Operating leases	8.9%
Finance leases	8.5%

Note 5 — Revenue from Contracts with Customers

Revenues are recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. In recognizing revenue for products and services, the Company determines the transaction price of purchase orders or contracts with customers, which may consist of fixed and variable consideration. Determining the transaction price may require significant judgment by management, which includes identifying performance obligations, estimating variable consideration to include in the transaction price, and determining whether promised goods or services are distinct within the context of the contract. Variable consideration typically consists of product returns and is estimated based on the amount of consideration the Company expects to receive. Revenue accruals are recorded on an ongoing basis to reflect updated variable consideration information.

For certain contracts, the Company recognizes revenue under the percentage-of-completion method of accounting, measured by the percentage of "costs incurred to date" to the "total estimated costs of completion." This percentage is applied to the "total estimated revenue at completion" to calculate proportionate revenue earned to date. For the three months ended March 31, 2019 and 2018, the percentage-of-completion revenue accounted for less than 0.1% of total revenue during the respective time periods. This resulted in immaterial unfulfilled performance obligations and immaterial contract assets and/or liabilities, for which the Company did not record adjustments to opening retained earnings as of December 31, 2015 or for any periods previously presented.

The vast majority of the Company's products are sold at a point in time and service contracts are short-term in nature. Sales are billed on a monthly basis with payment terms customarily 30 days from invoice receipt. In addition, sales taxes are excluded from revenues.

Disaggregation of Revenue

The Company has disaggregated revenues by product sales (point-in-time revenue recognition) and service revenue (over-time revenue recognition), where product sales accounted for over 95% of total revenue for the three months ended March 31, 2019 and 2018.

The Company differentiates revenue and operating expenses (excluding depreciation and amortization) based on whether the source of revenue is attributable to products or services. Revenue and operating expenses (excluding depreciation and amortization) disaggregated by revenue source are as follows (in thousands):

	Three months ended March 31,	
	2019	2018
Revenue:		
Products	$ 42,072	$ 39,929
Services	1,184	1,140
	$ 43,256	$ 41,069
Operating expenses (excluding depreciation and amortization):		
Products	$ 44,078	$ 35,181
Services	521	1,474
	$ 44,599	$ 36,655

Arrangements with Multiple Performance Obligations

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. Standalone selling prices are generally determined based on the prices charged to customers ("observable standalone price") or an expected cost plus a margin approach. For combined products and services within a contract, the Company accounts for individual products and services separately if they are distinct (i.e. if a product or service is separately identifiable from other items in the contract and if a customer can benefit from it on its own or with other resources that are readily available to the customer). The consideration is allocated between separate products and services within a contract based on the prices at the observable standalone price. For items that are not sold separately, the expected cost plus a margin approach is used to estimate the standalone selling price of each performance obligation.

Contract Balances

Under revenue contracts for both products and services, customers are invoiced once the performance obligations have been satisfied, at which point payment is unconditional. Accordingly, no revenue contracts give rise to contract assets or liabilities under ASC 606.

Note 6 — Supplemental Cash Flow Information

Supplemental cash flow information is as follows (in thousands):

	Three months ended March 31, 2019	Three months ended March 31, 2018
Supplemental cash payment information:		
Interest paid	$ 578	$ 457
Income taxes paid, net of refunds	22	71

Note 7 — Inventories

Inventories are as follows (in thousands):

	March 31, 2019	December 31, 2018
Raw materials	$ 19,636	$ 10,608
Work-in-process	—	—
Finished goods	16,138	18,798
Inventories	35,774	29,406
Less reserve for excess and obsolete inventory	(1,416)	(2,117)
Inventories, net	$ 34,358	$ 27,289

Note 8 — Property and Equipment

Property and equipment are as follows (in thousands):

	March 31, 2019	December 31, 2018
Land	$ 4,372	$ 4,372
Buildings and leasehold improvements	37,742	37,719
Machinery and equipment	26,601	26,995
Fixed assets in progress	888	581
Furniture and fixtures	1,574	1,573
Transportation equipment	1,665	1,852
Computer equipment and software	5,401	9,370
Property and equipment	78,243	82,462
Less accumulated depreciation	(35,254)	(36,977)
Property and equipment, net	$ 42,989	$ 45,485

Depreciation expense totaled $1.8 million and $2.0 million for the three months ended March 31, 2019 and 2018, respectively.

During the three months ended March 31, 2019 and 2018, no impairments were recognized related to property and equipment.

Note 9 — Goodwill

The Company has no reporting units which had a goodwill balance at December 31, 2018, and there were no acquisitions during the three months ended March 31, 2019.

Note 10 — Other Intangible Assets

Other intangible assets are as follows (in thousands):

	March 31, 2019		December 31, 2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Finite-lived intangible assets:				
Patents and technology	$ 18,941	$ 6,955	$ 18,884	$ 6,689
Customer lists	15,367	5,447	15,367	5,259
Trademarks and brand names	1,473	1,161	1,485	1,149
Total finite-lived intangible assets acquired	35,781	13,563	35,736	13,097
Deferred financing costs	—	—	1,924	496
Total amortizable intangible assets	35,781	$ 13,563	37,660	$ 13,593
Indefinite-lived intangible assets:				
Trademarks and brand names	2,760		2,760	
Total other intangible assets	$ 38,541		$ 40,420	
Carrying value:				
Other intangible assets, net	$ 24,978		$ 26,827	

Finite-lived intangible assets acquired are amortized on a straight-line basis over two to 20 years. Amortization of finite-lived intangible assets acquired totaled $0.5 million and $0.3 million for the three months ended March 31, 2019 and 2018, respectively.

Amortization of deferred financing costs totaled $1.4 million and $0.1 million for the three months ended March 31, 2019 and 2018, respectively.

Note 11 — Long-Term Debt and Credit Facility

Long-term debt is as follows (in thousands):

	March 31, 2019	December 31, 2018
Long-term debt, classified as current:		
Borrowings under revolving credit facility	$ —	$ 49,731

Borrowing under the revolving credit agreement was classified as current debt as a result of the required lockbox arrangement and the subjective acceleration clause.

Credit Facility

On May 10, 2013, the Company and certain of its subsidiaries (the “Borrowers”) entered into an Amended and Restated Revolving Credit, Term Loan and Security Agreement (as amended, the “Credit Facility”) with PNC Bank, National Association (“PNC Bank”). The Company could borrow under the Credit Facility for working capital, permitted acquisitions, capital expenditures and other corporate purposes. The Credit Facility was to continue in effect until May 10, 2022. Under terms of the Credit Facility, the Company had total borrowing availability of $75 million under a revolving credit facility, including a sublimit of $10 million that could be used for letters of credit. On March 1, 2019, the Company repaid the outstanding balance, interest, and fees related to the revolving credit facility, and simultaneously terminated the Credit Facility with PNC Bank.

Note 12 — Earnings (Loss) Per Share

Basic earnings (loss) per common share is calculated by dividing net income (loss) 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) by the weighted average number of common shares outstanding combined with dilutive common share equivalents outstanding, if the effect is dilutive.

Potentially dilutive securities were excluded from the calculation of diluted loss per share for the three months ended March 31, 2019 and 2018, since including them would have an anti-dilutive effect on loss per share due to the net loss incurred during the periods. Securities convertible into shares of common stock that were not considered in the diluted loss per share calculations were

0.2 million restricted stock units for the three months ended March 31, 2019, and 0.5 million restricted stock units for the three months ended March 31, 2018.

A reconciliation of the number of shares used for the basic and diluted earnings (loss) per common share computations is as follows (in thousands):

	Three months ended March 31,	
	2019	2018
Weighted average common shares outstanding - Basic	58,373	57,259
Assumed conversions:		
Incremental common shares from stock options	—	—
Incremental common shares from restricted stock units	—	—
Weighted average common shares outstanding - Diluted	58,373	57,259

Note 13 — Fair Value Measurements

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company categorizes financial assets and liabilities into the three levels of the fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value and bases 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 on the reporting entity's assumptions about the inputs.

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 total cash of $96.8 million, which consisted of cash equivalents of $49.0 million in a government money market account and cash deposits of $45.0 million in an interest bearing demand deposit account and $2.8 million in operating cash accounts, at March 31, 2019, and $3.0 million, which consisted of no cash equivalents and cash deposits of $3.0 million in operating cash accounts, at December 31, 2018.

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

	March 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Borrowings under revolving credit facility	—	—	49,731	49,731

The carrying amount of borrowings under the revolving credit facility approximates its fair value because the interest rates are variable.

Assets Measured at Fair Value on a Nonrecurring Basis

The Company's 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 fair value adjustment in certain circumstances. No impairments of any of these assets were recognized during the three months ended March 31, 2019 and 2018.

Note 14 — Income Taxes

A reconciliation of the U.S. federal statutory tax rate to the Company's effective income tax rate is as follows:

	Three months ended March 31,	
	2019	2018
U.S. federal statutory tax rate	21.0 %	21.0 %
State income taxes, net of federal benefit	0.5	(7.5)
Non-U.S. income taxed at different rates	1.3	20.7
Reduction in tax benefit related to stock-based awards	(2.3)	(44.2)
Non-deductible expenses	(0.6)	(8.3)
Research and development credit	0.8	24.7
Increase in valuation allowance	(15.7)	(3.1)
Other	(0.2)	—
Effective income tax rate	4.8 %	3.3 %

Fluctuations in effective tax rates have historically been impacted by permanent tax differences with no associated income tax impact, changes in state apportionment factors, including the effect on state deferred tax assets and liabilities, and non-U.S. income taxed at different rates.

Net deferred tax assets arise due to the recognition of income and expense items for tax purposes, which differ from those used for financial statement purposes. ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for a valuation allowance in the second quarter of 2018, the Company considered all available objective and verifiable evidence, both positive and negative, including historical levels of pre-tax income (loss) both on a consolidated basis and tax reporting entity basis, legislative developments, and expectations and risks associated with estimates of future pre-tax income. As a result of this analysis, the Company determined that it was more likely than not that it would not realize the benefits of certain deferred tax assets and, therefore, recorded a $15.5 million valuation allowance against the carrying value of net deferred tax assets, except for deferred tax liabilities related to non-amortizable intangible assets and certain state jurisdictions. As all available evidence should be taken into consideration when assessing the need for a valuation allowance, the sale of the CICT segment provided a source of income to support the release of $11.5 million of the valuation allowance which resulted in a deferred tax asset of $18.7 million. As such, the Company reversed this portion of the valuation allowance during the fourth quarter of 2018. The increase in the valuation allowance during the three months ended March 31, 2019, reflects management's evaluation of deferred tax assets more-likely-than-not to be used after giving consideration to the gain from the sale of the CICT segment and anticipated results of operations.

In January 2017, the Internal Revenue Service notified the Company that it will examine the Company's federal tax returns for the year ended December 31, 2014. The examination included (1) the corporate returns and (2) employment tax matters. The IRS fieldwork has been completed in relation to the corporate returns with no adverse findings. Further discussion of the employment tax matter can be found in Note 18 — "Related Party Transaction".

Note 15 — 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 common shares issued during the three months ended March 31, 2019 is as follows:

Shares issued at December 31, 2018	62,162,875
Issued as restricted stock award grants	36,037
Shares issued at March 31, 2019	62,198,912

Stock Repurchase Program

In June 2015, the Company's Board of Directors authorized the repurchase of up to $50 million of the Company's common stock. Repurchases may be made in the open market or through privately negotiated transactions. Through December 31, 2017, the

Company had repurchased $0.3 million of its common stock under this authorization. During the three months ended March 31, 2019 and 2018, the Company did not repurchase any shares of its outstanding common stock under this authorization.

At March 31, 2019, the Company has $49.7 million remaining under its share repurchase programs.

Note 16 — Business Segment, Geographic and Major Customer Information

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 in deciding how to allocate resources and assess performance. The operations of the Company are categorized into one reportable segment: Energy Chemistry Technologies.

- Energy Chemistry Technologies designs, develops, manufactures, packages, distributes, delivers, and markets reservoir-centric fluid systems, including specialty and conventional chemistries, for use in oil and gas ("O&G") well drilling, cementing, completion, remediation, and stimulation activities designed to maximize recovery in both new and mature fields. Activities in this segment also include construction and management of automated material handling facilities and management of loading facilities and blending operations for oilfield services companies.

The Company evaluates performance based upon a variety of criteria. The primary financial measure is segment operating income. 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, and income taxes are not allocated to the reportable segment.

Summarized financial information of the reportable segments is as follows (in thousands):

For the three months ended March 31,	Energy Chemistry Technologies	Corporate and Other	Total
2019			
Net revenue from external customers	$ 43,256	$ —	$ 43,256
Income (loss) from operations	(5,334)	(8,932)	(14,266)
Depreciation and amortization	1,785	475	2,260
Capital expenditures	461	—	461
2018			
Net revenue from external customers	$ 41,069	$ —	$ 41,069
Income (loss) from operations	(166)	(9,057)	(9,223)
Depreciation and amortization	1,769	564	2,333
Capital expenditures	1,011	366	1,377

Assets of the Company by reportable segments are as follows (in thousands):

	March 31, 2019	December 31, 2018
Energy Chemistry Technologies	$ 157,636	$ 139,205
Corporate and Other	125,156	28,208
Total segments	282,792	167,413
Held for sale	—	118,470
Total assets	$ 282,792	$ 285,883

Geographic Information

Revenue by country is based on the location where services are provided and products are used. No individual country other than the United States ("U.S.") accounted for more than 10% of revenue, except as noted below. Revenue by geographic location is as follows (in thousands):

	Three months ended March 31,	
	2019	2018
U.S.	$ 38,875	$ 36,710
Other countries	4,381	4,359
Total	$ 43,256	$ 41,069

Long-lived assets held in countries other than the U.S. are not considered material to the consolidated financial statements.

Major Customers

Revenue from major customers, as a percentage of consolidated revenue, is as follows:

	Three months ended March 31,	
	2019	2018
Customer A	19.0%	*
Customer B	12.6%	*
Customer C	*	10.7%

* This customer did not account for more than 10% of revenue.

Note 17 — Commitments and Contingencies

Class Action Litigation

On March 30, 2017, the U.S. District Court for the Southern District of Texas granted the Company's motion to dismiss the four consolidated putative securities class action lawsuits that were filed in November 2015, against the Company and certain of its officers. The lawsuits were previously consolidated into a single case, and a consolidated amended complaint had been filed. The consolidated amended complaint asserted that the Company made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. The complaint sought an award of damages in an unspecified amount on behalf of a putative class consisting of persons who purchased the Company's common stock between October 23, 2014 and November 9, 2015, inclusive. The lead plaintiff appealed the District Court's decision granting the motion to dismiss. On February 7, 2019, a three-judge panel of the United States Court of Appeals for the Fifth Circuit issued a unanimous opinion affirming the District Court's judgment of dismissal in its entirety.

Other Litigation

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

Concentrations and Credit Risk

The majority of the Company's revenue is derived from the oil and gas industry. Customers include major oilfield services companies, major integrated oil and natural gas companies, independent oil and natural gas companies, pressure pumping service companies, and state-owned national oil companies. This concentration of customers in one industry increases credit and business risks.

The Company is subject to concentrations of credit risk within trade accounts receivable, as the Company does not generally require collateral as support for trade receivables. In addition, the majority of the Company's cash is maintained at a major financial institution and balances often exceed insurable amounts.

Note 18 — Related Party Transaction

In January 2017, the Internal Revenue Service ("IRS") notified the Company that it was examining the Company's federal tax returns for the year ended December 31, 2014. As a result of this examination, the IRS informed the Company on May 1, 2019 that certain employment taxes related to the CEO's compensation were not properly withheld in 2014 and proposed an adjustment. As the Company has a statutory obligation to collect and withhold employment taxes, management reviewed the CEO's compensation for tax year 2014, as well as tax years 2015 through 2018, in order to estimate the Company's potential outstanding employment tax liability in connection with this matter. Upon completion of this review, management believes the Company's total potential exposure in this matter for 2014 through 2018 is approximately $2.4 million. The CEO's affiliated companies through which he provided his services have agreed to indemnify the Company for such taxes, and the CEO has executed a personal guaranty in favor of Flotek, supporting this indemnification. As such, the Company recorded an accrued liability for the potential exposure to the IRS in the amount of $2.4 million, with a corresponding receivable, recorded in other current assets, from the CEO's affiliated companies for the same amount relating to such indemnification obligation during the three months ended March 31, 2019.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q ("Quarterly Report"), and in particular, Part I, Item 2 — "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains "forward-looking statements" within the meaning of the safe harbor provisions, 15 U.S.C. § 78u-5, of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). Forward-looking statements are not historical facts, but instead represent Flotek Industries, Inc.'s ("Flotek" or "Company") current assumptions and beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside the Company's control. Such statements include estimates, projections, and statements related to the Company's business plan, objectives, expected operating results, and assumptions upon which those statements are based. The forward-looking statements contained in this Quarterly Report are based on information available as of the date of this Quarterly Report.

The forward-looking statements relate to future industry trends and economic conditions, forecast performance or results of current and future initiatives and the outcome of contingencies and other uncertainties that may have a significant impact on the Company's business, future operating results and liquidity. These forward-looking statements generally are identified by words including, but not limited to, "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 are 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 Part I, Item 1A — "Risk Factors" of the Annual Report on Form 10-K for the year ended December 31, 2018 ("Annual Report") and periodically in subsequent reports filed with the Securities and Exchange Commission ("SEC"). The Company has no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events, except as required by law.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto of this Quarterly Report, as well as the Annual Report. Phrases such as "Company," "we," "our," and "us" refer to Flotek Industries, Inc. and its subsidiaries.

Basis of Presentation

During the fourth quarter of 2018, the Company classified the Consumer and Industrial Chemistry Technologies segment as held for sale based on management's intention to sell this business. The Company's historical financial statements have been revised to present the operating results of the Consumer and Industrial Chemistry Technologies segment as discontinued operations. The results of operations of this segment are presented as "Income from discontinued operations" in the statement of operations and the related cash flows of this segment has been reclassified to discontinued operations for all periods presented. The assets and liabilities of the Consumer and Industrial Chemistry Technologies segment have been reclassified to "Assets held for sale" and "Liabilities held for sale," respectively, in the consolidated balance sheets for all periods presented. During the first quarter of 2019, the Company completed the sale of this segment.

Executive Summary

Flotek is an international energy chemistry technology-driven company that develops and supplies chemistries and services to the oil and gas industry. Through February 28, 2019, Flotek also provided high value compounds to companies that make food and beverages, cleaning products, cosmetics, and other products that are sold in consumer and industrial markets. Flotek operates in over 15 domestic and international markets.

The Company's oilfield business includes specialty chemistries and logistics which enable its customers to pursue improved efficiencies in the drilling and completion of their wells. Customers include major integrated oil and gas ("O&G") companies, oilfield services companies, independent O&G companies, pressure-pumping service companies, national and state-owned oil companies, and international supply chain management companies. Through February 28, 2019, the Company also produced non-energy-related citrus oil and related products, classified as discontinued operations, including (1) high value compounds used as additives by companies in the flavors and fragrances markets and (2) environmentally friendly chemistries for use in numerous industries around the world, including the O&G industry. Additionally, the Company also provides automated bulk material handling, loading facilities, and blending capabilities.

Continuing Operations

The operations of the Company are categorized into one reportable segment: Energy Chemistry Technologies ("ECT").

- Energy Chemistry Technologies designs, develops, manufactures, packages, distributes, delivers, and markets reservoir-centric fluid systems, including specialty and conventional chemistries, for use in oil and gas ("O&G") well drilling, cementing, completion, remediation, and stimulation activities designed to maximize recovery in both new and mature fields. Flotek's specialty chemistries possess enhanced performance characteristics and are manufactured to perform in a broad range of basins and reservoirs with varying downhole pressures, temperatures and other well-specific conditions customized to customer specifications. This segment has technical services laboratories and a research and innovation laboratory that focus on design improvements, development and viability testing of new chemistry formulations, and continued enhancement of existing products.

Discontinued Operations

In the first quarter of 2019, the Consumer and Industrial Chemistry Technologies segment was sold and is classified as discontinued operations.

- Consumer and Industrial Chemistry Technologies designed, developed, and manufactured products that are sold to companies in the flavor and fragrance industries and specialty chemical industry. These technologies are used by beverage and food companies, fragrance companies, and companies providing household and industrial cleaning products.

Market Conditions

The Company's success is sensitive to a number of factors, which include, but are not limited to, drilling and well completion activity, customer demand for its advanced technology products, market prices for raw materials, and governmental actions.

Drilling and well completion activity levels are influenced by a number of factors, including the number of rigs in operation and the geographical areas of rig activity. Additional factors that influence the level of drilling and well completion activity include:

- Historical, current, and anticipated future O&G prices,
- Federal, state, and local governmental actions that may encourage or discourage drilling activity,
- Customers' strategies relative to capital funds allocations,
- Weather conditions, and
- Technological changes to drilling and completion methods and economics.

Historical North American drilling activity is reflected in "TABLE A" on the following page.

Customers' demand for advanced technology products and services provided by the Company are dependent on their recognition of the value of:

- Chemistries that improve the economics of their O&G operations,
- Chemistries that meet the need of consumer product markets, and
- Chemistries that are economically viable, socially responsible, and ecologically sound.

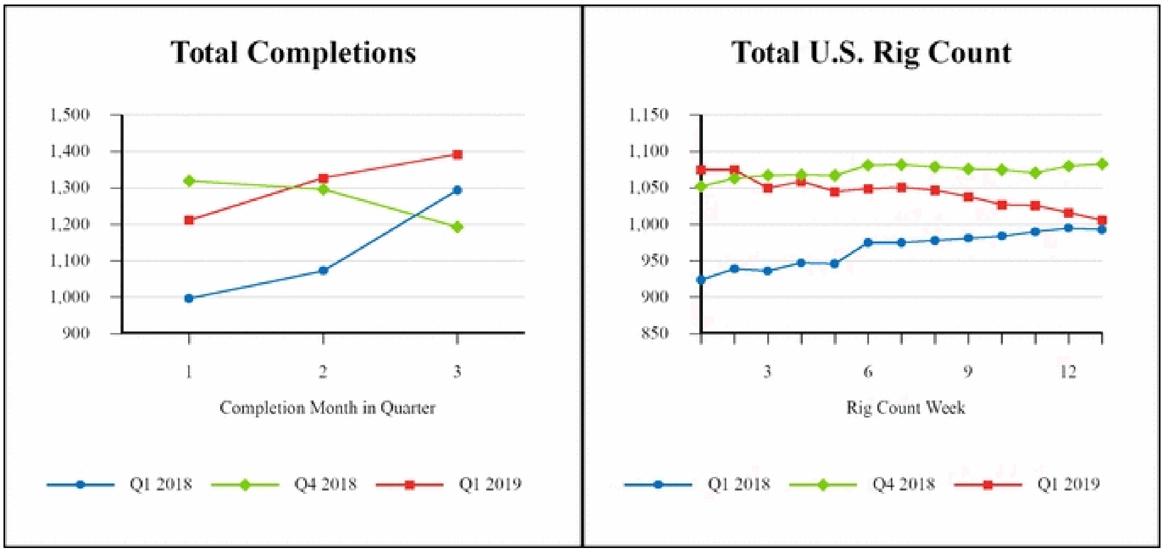
Market prices for commodities, including citrus oils, can be influenced by:

- Historical, current, and anticipated future production levels of the global citrus (primarily orange) crops,
- Weather related risks,
- Health and condition of citrus trees (e.g., disease and pests), and
- International competition and pricing pressures resulting from natural and artificial pricing influences.

Governmental actions may restrict the future use of hazardous chemicals, including, but not limited to, the following industrial applications:

- O&G drilling and completion operations,
- O&G production operations, and
- Non-O&G industrial solvents.

TABLE A	Three months ended March 31,		
	2019	2018	% Change
Average North American Active Drilling Rigs			
U.S.	1,043	966	8.0 %
Canada	183	269	(32.0)%
Total	1,226	1,235	(0.7)%
Average U.S. Active Drilling Rigs by Type			
Vertical	61	63	(3.2)%
Horizontal	919	833	10.3 %
Directional	63	70	(10.0)%
Total	1,043	966	8.0 %
Average North American Drilling Rigs by Product			
Oil	960	959	0.1 %
Natural Gas	266	276	(3.6)%
Total	1,226	1,235	(0.7)%



Source: Rig counts are per Baker Hughes, Inc. (www.bakerhughes.com). Rig counts are the averages of the weekly rig count activity.
Completions are per the U.S. Energy Information Administration (https://www.eia.gov/petroleum/drilling/) as of April 15, 2019.

Average U.S. rig activity increased by 8.0% for the three months ended March 31, 2019, when compared to the same period of 2018, and decreased by 2.8% when compared to the fourth quarter of 2018.

According to data collected by the U.S. Energy Information Administration ("EIA") as reported on April 15, 2019, completions in the seven most prolific areas in the lower 48 states increased 16.9% for the three months ended March 31, 2019, when compared to the same period of 2018. Completions increased 3.2% when compared to the fourth quarter of 2018.

Company Outlook

After a continuous decline in U.S. drilling activity beginning in mid-2014, the market began to gradually recover in the second quarter of 2016. Although oil and gas markets have improved, the level of drilling and completion activity remains lower than previous levels experienced before the downturn in 2014. Assuming the price for crude oil remains relatively stable and regulatory impediments are limited, the Company expects global oilfield activity to remain stable throughout 2019.

During the first quarter of 2019, the Company continued to analyze and promote the efficacy of its Complex nano-Fluid® ("CnF®") chemistries and its Prescriptive Chemistry Management® ("PCM®") offering. Although quarter-to-quarter performance may vary, the Company expects to continue to penetrate the market over time by demonstrating the efficacy of its CnF® chemistries and reservoir-centric full fluid systems via PCM®. The Company will continue to demonstrate the value and benefit of Flotek chemistries through comparative analysis of wells with and without Flotek chemistries and field validation results conducted in partnership with exploration and production ("E&P") companies. Flotek is experiencing a notable shift in purchasing behaviors in which E&P companies are seeking greater transparency, control and efficacy in their fluid systems, as they see diminishing returns on mechanical factors in their completion designs, such as proppant loading, fluid loading, and lateral length in their completion. As a result, they are focusing more on sourcing consumables, including chemistry, directly from manufacturers and providers of these products. This trend has created significant changes in Flotek's customer base, product portfolio, and sales efforts and continues to influence changes in inventory and distribution strategies, capital allocation, and the business model for the Company. While these challenges are expected to persist in the near-term, the Company believes it can grow its client base and revenue opportunities over time.

The Company continues to enhance and improve its patented and proven chemistries through its industry leading research and innovation staff who develop innovative and customer- responsive products, as well as create new chemistry technologies, which are expected to address oilfield challenges of the future and expand the Company's future product lines. Completed in 2016, the Company's Global Research & Innovation Center in Houston houses scientists, chemists, geologists, and reservoir, petroleum and geomechanical engineers who advance the development of next-generation innovative energy chemistries, as well as expanded collaboration among clients, leaders from academia, and Company scientists. These collaborative opportunities are an important and distinguishing capability within the industry and provide real-time product and fluid system development direct to the consumer.

During the fourth quarter of 2018, the Company initiated a strategic plan to sell its Consumer and Industrial Chemistry Technologies segment, which was completed in the first quarter of 2019. The Company continues to focus on maximizing the profitability of its product and business portfolio, and may exit or enter new product lines or businesses which complement its current operations.

Capital expenditures for continuing operations totaled $0.5 million and $1.4 million for the three months ended March 31, 2019 and 2018, respectively. The Company expects maintenance capital spending of approximately $4.0 million in 2019, and does not have any specific growth capital projects currently planned or committed. During the first quarter of 2019, the Company formed a Strategic Capital Committee that will consider these possible growth capital projects going forward. The Company will remain nimble in its core capital expenditure plans, adjusting as market conditions warrant, and will focus any growth capital spending program on uses that generate positive returns and to areas that pose a strategic long-term benefit.

During the first quarter and into the beginning of the second quarter of 2019, the Company lost several key sales personnel due to the competitive nature of the Company's industry. While the near term sales outlook may be negatively impacted, which could result in a decrease in revenues during the remainder of 2019, the Company believes the relationships built with its customers and the demonstrated value and benefit of Flotek's chemistries will help to mitigate the potential revenue declines. Further, in April 2019, the Company hired a new Senior Vice President of Global Sales & Business Development that will lead the Company's domestic and international sales and business development strategies.

Changes to geopolitical, global economic, and industry trends could have an impact, either positive or negative, on the Company's business. In the event of significant adverse changes to the demand for oil and gas production, the market price for oil and gas, weather patterns, and/or the availability of citrus crops, the market conditions affecting the Company could change rapidly and materially. Should such adverse changes to market conditions occur, management believes the Company has adequate liquidity to withstand the impact of such changes while continuing to make strategic capital investments and acquisitions, if opportunities arise. In addition, management believes the Company is well-positioned to take advantage of significant increases in demand for its products should market conditions improve dramatically in the near term.

Results of Continuing Operations (in thousands):

	Three months ended March 31,	
	2019	2018
Revenue	$ 43,256	$ 41,069
Operating expenses (excluding depreciation and amortization)	44,599	36,655
Operating expenses %	103.1 %	89.3 %
Corporate general and administrative	7,281	8,493
Corporate general and administrative %	16.8 %	20.7 %
Depreciation and amortization	2,260	2,333
Research and development costs	2,285	2,754
Loss on disposal of long-lived assets	1,097	57
Loss from operations	(14,266)	(9,223)
Operating margin %	(33.0)%	(22.5)%
Interest and other expense, net	(1,888)	(627)
Loss before income taxes	(16,154)	(9,850)
Income tax benefit	774	322
Loss from continuing operations	(15,380)	(9,528)
Income from discontinued operations, net of tax	48,372	9,595
Net income	$ 32,992	$ 67

Consolidated Results of Operations: Three Months Ended March 31, 2019, Compared to the Three Months Ended March 31, 2018

Consolidated revenue for the three months ended March 31, 2019, increased $2.2 million, or 5.3%, versus the same period of 2018. The increase in revenue was driven by changes in product mix and an ongoing transition related to the Company selling progressively more to oil and gas company end users rather than through energy service companies.

Consolidated operating expenses (excluding depreciation and amortization) for the three months ended March 31, 2019, increased $7.9 million, or 21.7%, compared to the same period of 2018, and, as a percentage of revenue, increased to 103.1% for the three months ended March 31, 2019, from 89.3%, in the same period of 2018. The increase is primarily due to increased material and labor costs, as well as higher logistics expenditures.

Corporate general and administrative ("CG&A") expenses are not directly attributable to products sold or services provided. CG&A costs decreased $1.2 million, or 14.3%, for the three months ended March 31, 2019, versus the same period of 2018. As a percentage of revenue, CG&A decreased 3.9% for the three months ended March 31, 2019. The decrease in CG&A costs were primarily due to continuing the aggressive cost reduction measures which began in the last quarter of 2017, lower incentive and stock compensation expense, decreased legal expenses, and lower payroll related costs associated with a decline in headcount, partially offset by costs associated with severance and certain shareholder-related activities in the first quarter of 2019.

Depreciation and amortization expense decreased $0.1 million, or 3.1%, for the three months ended March 31, 2019, versus the same period of 2018.

Research and Innovation ("R&I") expense decreased $0.5 million, or 17.0%, for the three months ended March 31, 2019, compared to the same period of 2018. The decrease is primarily due to a decline in general office costs pertaining to the R&I facilities and lower payroll related costs associated with a decline in headcount.

Loss on disposal of long-lived assets increased $1.0 million for the three months ended March 31, 2019, compared to the same period of 2018, primarily due to the disposal of certain corporate software in the first quarter of 2019.

Interest and other expense increased $1.3 million for the three months ended March 31, 2019, versus the same period of 2018, primarily due to accelerating the unamortized debt issuance costs associated with the PNC Bank Credit Facility upon termination of the facility in the first quarter of 2019.

The Company recorded an income tax benefit of $0.8 million, yielding an effective tax benefit rate of 4.8%, for the three months ended March 31, 2019, compared to an income tax benefit of $0.3 million, yielding an effective tax benefit rate of 3.3%, for the comparable period in 2018.

During the fourth quarter of 2018, the Company initiated a strategic plan to sell its Consumer and Industrial Chemistry Technologies segment, which was completed in the first quarter of 2019. The Company recorded net income from discontinued operations of $48.4 million for the three months ended March 31, 2019.

Results by Segment

Energy Chemistry Technologies ("ECT")

(dollars in thousands)	**Three months ended March 31,**	
	2019	**2018**
Revenue	$ 43,256	$ 41,069
Loss from operations	(5,334)	(166)
Operating margin %	(12.3)%	(0.4)%

ECT Results of Operations: Three Months Ended March 31, 2019, Compared to the Three Months Ended March 31, 2018

ECT revenue for the three months ended March 31, 2019, increased $2.2 million, or 5.3%, versus the same period of 2018. The increase is primarily attributable to product mix and transitions in the Company's customer base directly to E&P customers.

Loss from operations for the ECT segment increased $5.2 million for the three months ended March 31, 2019, versus the same period of 2018, which was primarily a result of gross margin compression caused by increases in material and labor costs and higher logistics expenditures and a write-down of a customer balance, partially offset by a reduction in inventory adjustments.

Discontinued Operations

During the fourth quarter of 2018, the Company classified the Consumer and Industrial Chemistry Technologies segment as held for sale based on management's intention to sell the business. During the first quarter of 2019, the Company completed the sale of the segment. The Company's historical financial statements have been revised to present the operating results of the Consumer and Industrial Chemistry Technologies segment as discontinued operations. The information below is presented for informational purposes only.

Consumer and Industrial Chemistry Technologies ("CICT")

(dollars in thousands)	**Three months ended March 31,**	
	2019	**2018**
Revenue	$ 11,031	$ 19,447
(Loss) income from operations	(610)	2,438
Operating margin %	(5.5)%	12.5%

Off-Balance Sheet Arrangements

There have been no transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as "structured finance" or "special purpose entities" ("SPEs"), established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of March 31, 2019, the Company was not involved in any unconsolidated SPEs.

The Company has not made any guarantees to customers or vendors nor does 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.

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 ("U.S. GAAP"). Preparation of these statements requires management to make judgments, estimates, and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Part II, Item 8 — Financial Statements and Supplementary Data, Note 2 of “Notes to Consolidated Financial Statements” and Part II, Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Critical Accounting Policies and Estimates” of the Company’s Annual Report, and the “Notes to Unaudited Condensed Consolidated Financial Statements” of this Quarterly Report describe the significant accounting policies and critical accounting estimates used to prepare the 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 expected changes in the business environment; however, actual results may materially differ from the estimates. There have been no significant changes in the Company’s critical accounting estimates during the three months ended March 31, 2019.

Recent Accounting Pronouncements

Recent accounting pronouncements which may impact the Company are described in Note 2 — “Recent Accounting Pronouncements” in Part I, Item 1 — “Financial Statements” of this Quarterly Report.

Capital Resources and Liquidity

Overview

The Company’s ongoing capital requirements arise from the Company’s need to acquire and maintain equipment, fund working capital requirements, and when the opportunities arise, to make strategic acquisitions and repurchase Company stock. During the first three months of 2019, the Company funded capital requirements primarily with cash on hand, including proceeds from the sale of the CICT segment, and debt financing.

The Company’s primary source of debt financing was its $75 million Credit Facility with PNC Bank. Upon closing of the sale of the CICT segment, on March 1, 2019, the Company repaid the outstanding balance, interest, and fees related to the revolving credit facility, and subsequently terminated the Credit Facility with PNC Bank. Significant terms of the Credit Facility are discussed in Note 13 — “Long-Term Debt and Credit Facility” in Part II, Item 8 — “Financial Statements and Supplementary Data” of the Company’s Annual Report.

The Company believes it has adequate liquidity to fund its ongoing operations and capital expenditures. As of March 31, 2019, the Company had available cash and cash equivalents of $96.8 million. For the remainder of 2019, the Company expects maintenance capital spending of approximately $3.5 million and does not have any specific growth capital projects currently planned or committed. During the remainder of 2019, the Company plans to use internally generated funds and cash on hand to fund operations and capital expenditures. With the proceeds from the sale of the CICT segment, the Company paid off its credit facility balance and formed a Strategic Capital Committee to evaluate and make recommendations to the board of directors regarding the manner in which the remaining net proceeds from the sale will be deployed. Subject to Board approval of any recommendations by the Strategic Capital Committee, the Company will continue to invest capital in what it believes to be economically attractive opportunities for its shareholders. This includes the potential for share repurchases as approved by the board of directors in June 2015.

Any excess cash generated may be used for outside growth opportunities or retained for future use.

Cash Flows

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

	Three months ended March 31,	
	2019	2018
Net cash used in operating activities	$ (25,721)	$ (12,183)
Net cash provided by (used in) investing activities	169,290	(1,414)
Net cash provided by (used in) financing activities	(49,862)	11,926
Net cash flows provided by discontinued operations	—	—
Effect of changes in exchange rates on cash and cash equivalents	2	(48)
Net increase (decrease) in cash and cash equivalents	$ 93,709	$ (1,719)

Operating Activities

Net cash used in operating activities was $25.7 million and $12.2 million during the three months ended March 31, 2019 and 2018, respectively. Consolidated net loss for the three months ended March 31, 2019 and 2018, totaled $15.4 million and $9.5 million, respectively.

During the three months ended March 31, 2019, net non-cash contributions to net income totaled $23.7 million. Contributory non-cash items consisted primarily of $17.9 million for changes to deferred income taxes driven by the valuation allowance recorded against deferred tax assets, $3.7 million for depreciation and amortization, $1.1 million for net loss on disposal of long-lived assets, $0.5 million for stock-based compensation expense, and $0.4 million for provisions related to accounts receivables.

During the three months ended March 31, 2018, net non-cash reductions to net income totaled $2.0 million. Non-cash items which increased net loss consisted primarily of $7.7 million for changes to deferred income taxes, partially offset by contributory non-cash items of $1.9 million for stock compensation expense, $2.4 million for depreciation and amortization, $1.3 million for provisions related to inventory reserves, and $0.1 million for net loss on disposal of long-lived assets.

During the three months ended March 31, 2019, changes in working capital used $34.1 million in cash, primarily resulting from increasing restricted cash, accounts receivables, inventories, income taxes receivables, and other current assets by $27.1 million and decreasing accounts payable and accrued liabilities by $9.4 million, partially offset by increasing income taxes payable by $2.4 million.

During the three months ended March 31, 2018, changes in working capital used $0.6 million in cash, primarily resulting from decreasing accounts payable, accrued liabilities, and interest payable by $8.4 million, partially offset by decreasing accounts receivable, inventories, and other current assets by $7.8 million.

Investing Activities

Net cash provided by investing activities was $169.3 million for the three months ended March 31, 2019. Cash provided by investing activities primarily included $169.7 million of proceeds received from the sale of the CICT segment and $0.1 million of proceeds received from the sale of long-lived assets, partially offset by $0.5 million for capital expenditures and $0.1 million for the purchase of various patents and other intangible assets.

Net cash used in investing activities was $1.4 million for the three months ended March 31, 2018. Cash used in investing activities primarily included $1.4 million for capital expenditures and $0.1 million for the purchase of various patents, partially offset by $0.1 million of proceeds received from the sale of long-lived assets.

Financing Activities

Net cash used in financing activities was $49.9 million for the three months ended March 31, 2019, due to using $49.7 million for repayments of debt, net of borrowings, associated with the termination of the Credit Facility and $0.1 million for purchases of treasury stock for tax withholding purposes related to the vesting of restricted stock awards.

Net cash generated through financing activities was $11.9 million for the three months ended March 31, 2018, primarily due to receiving $11.8 million for borrowings of debt, net of repayments, and receiving $0.1 million in proceeds from the sale of common stock.

Contractual Obligations

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

Material contractual obligations consist of payments of finance and operating lease obligations. Contractual obligations at March 31, 2019, are as follows (in thousands):

	Payments Due by Period				
	Total	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Finance lease obligations	207	39	78	78	12
Operating lease obligations	36,818	2,447	4,630	4,387	25,354
Total	$ 37,025	$ 2,486	$ 4,708	$ 4,465	$ 25,366

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in interest rates, commodity prices, and foreign currency exchange rates. There have been no material changes to the quantitative or qualitative disclosures about market risk set forth in Part II, Item 7A of the Company's Annual Report.

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 (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures are also designed to ensure 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 can only provide reasonable assurance that control objectives are attained. The Company's disclosure controls and procedures are designed to provide such reasonable assurance.

The Company's management, with the participation of the principal executive and principal financial officers, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2019, as required by Rule 13a-15(e) of the Exchange Act. Based upon that evaluation, the principal executive and principal financial officers have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2019.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's system of internal control over financial reporting during the three months ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Class Action Litigation

On March 30, 2017, the U.S. District Court for the Southern District of Texas granted the Company’s motion to dismiss the four consolidated putative securities class action lawsuits that were filed in November 2015, against the Company and certain of its officers. The lawsuits were previously consolidated into a single case, and a consolidated amended complaint had been filed. The consolidated amended complaint asserted that the Company made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company’s business, operations, and prospects. The complaint sought an award of damages in an unspecified amount on behalf of a putative class consisting of persons who purchased the Company’s common stock between October 23, 2014 and November 9, 2015, inclusive. The lead plaintiff appealed the District Court’s decision granting the motion to dismiss. On February 7, 2019, a three-judge panel of the United States Court of Appeals for the Fifth Circuit issued a unanimous opinion affirming the District Court’s judgment of dismissal in its entirety.

Other Litigation

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

Item 1A. Risk Factors

See Part I, Item 1A — “Risk Factors" of the Company’s 2018 Annual Report on Form 10-K for a detailed discussion of the Company’s risk factors. Except as set forth by this section, there have been no material changes to these risk factors.

The Company relies heavily on its sales professionals to market and sell its products. If the Company is unable to hire, effectively train, manage, improve the productivity of, and retain its sales professionals, the business will be harmed, which would impair the Company’s future revenue and profitability.

The Company’s success largely depends on its ability to hire, train, manage and improve the productivity levels of its sales professionals. The Company has experienced direct sales employee and sales management turnover in the past. The loss of any member of the sales team’s senior management could weaken the Company’s sales expertise and harm its business, and the Company may not be able to find adequate replacements on a timely basis, or at all. The changes in senior management that have occurred in December 2018 and early 2019 may continue to create instability in the sales force leading to attrition in sales representatives in the future.

Competition for sales professionals who are familiar with and trained to sell the Company’s products continues to be strong. The Company trains its sales professionals to better understand the existing and new product technologies and how they can be positioned against the Company’s competitors’ products. These initiatives are intended to improve the productivity of the sales professionals and the Company’s revenue and profitability. It takes time for the sales professionals to become productive following their hiring and training, and there can be no assurance that sales representatives will reach adequate levels of productivity, or that the Company will not experience significant levels of attrition in the future. Measures the Company implements to improve the productivity may not be successful and may instead contribute to instability in its operations, additional departures from the sales organization, or further reduce the Company’s revenue, profitability, and harm its business and the Company’s stock price may be adversely impacted as a result.

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

Issuer Purchases of Equity Securities

Repurchases of the Company's equity securities during the three months ended March 31, 2019, are as follows:

Period	Total Number of Shares Purchased (1)		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)
January 1, 2019 to January 31, 2019	149	$	1.13	—	$	49,704,947
February 1, 2019 to February 28, 2019	27,570	$	3.20	—	$	49,704,947
March 1, 2019 to March 31, 2019	12,930	$	3.23	—	$	49,704,947
Total	40,649	$	3.20	—		

(1) The Company purchases shares of its common stock (a) to satisfy tax withholding requirements and payment remittance obligations related to period vesting of restricted shares and exercise of non-qualified stock options, (b) to satisfy payments required for common stock upon the exercise of stock options, and (c) as part of a publicly announced repurchase program on the open market.

(2) In June 2015, the Company's Board of Directors authorized the repurchase of up to an additional $50 million of the Company's common stock. Repurchases may be made in open market or privately negotiated transactions. Through March 31, 2019, the Company has repurchased $0.3 million of its common stock under this authorization and $49.7 million may yet be used to purchase shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On May 8, 2019, John Chisholm, the Company's President, Chief Executive Officer and Chairman of the Board, executed a Guaranty (the "Guaranty") in favor and for the benefit of the Company in connection with the Fifth Amended and Restated Service Agreement, by and among Protechnics II, Inc., a Texas corporation ("Protechnics"), Chisholm Management, Inc., a Texas corporation ("CMI," and together with Protechnics, the "Chisholm Companies"), and the Company, dated effective as of March 30, 2014, as amended by a letter agreement dated February 13, 2017 (as amended, the "Service Agreement").

Pursuant to the Guaranty, Mr. Chisholm unconditionally guarantees the full and punctual payment and performance of all obligations of the Chisholm Companies under or relating to the Service Agreement. The full text of the Service Agreement and the letter agreement amendment thereto were filed as Exhibits 10.5 and 10.16, respectively, to the Annual Report.

Item 6. Exhibits

Exhibit Number		Description of Exhibit
2.1		Share Purchase Agreement, dated as of January 10, 2019, by and between the Company and ADM (portions of this exhibit have been omitted pursuant to a confidential treatment request, which has been granted) (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on March 4, 2019).[1]
3.1		Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended September 30, 2007).
3.2		Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended September 30, 2009).
3.3		Second Amended and Restated Bylaws, dated October 11, 2017 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on October 17, 2017).
4.1		Form of Certificate of Common Stock (incorporated by reference to Appendix E to the Company's Definitive Proxy Statement filed on September 27, 2001).
4.2		Registration Rights Agreement, dated as of July 26, 2016, by and among the Company, Donald Bramblett, and Mark Kieper (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-3 (File No. 333-212864) filed on August 3, 2016).
10.1		Supply Agreement (Terpene), dated as of February 28, 2019, by and among the Company, Florida Chemical Company, LLC and ADM.[2]
10.2		Supply Agreement (Citrus Burst), dated as of February 28, 2019, by and between Florida Chemical Company, LLC and Flotek Chemistry, LLC.[2]
10.3		Cooperation Agreement, dated as of March 19, 2019, by and among Flotek Industries, Inc. and BLR Partners LP and its affiliates (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on March 20, 2019).
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.
1	Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company undertakes to furnish supplemental copies of any of the omitted schedules upon request by the SEC.
2	Portions of this exhibit have been omitted pursuant to Item 601(b)(10) of Regulation S-K in order for them to remain confidential.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FLOTEK INDUSTRIES, INC.

By: /s/ JOHN W. CHISHOLM

John W. Chisholm
President, Chief Executive Officer and
Chairman of the Board

Date: May 8, 2019

FLOTEK INDUSTRIES, INC.

By: /s/ ELIZABETH T. WILKINSON

Elizabeth T. Wilkinson
Chief Financial Officer

Date: May 8, 2019

Information identified with "[***]" has been excluded from this exhibit because it is both not material and would likely cause competitive harm to the registrant if publicly disclosed.

SUPPLY AGREEMENT

This Supply Agreement (the "Agreement") is entered into as of February 28, 2019 by and between Florida Chemical Company, LLC, a Delaware limited liability company ("FCC") and Flotek Chemistry, LLC, an Oklahoma limited liability company ("Flotek").

WHEREAS, the parties desire to set forth the terms pursuant to which FCC will supply certain products to Flotek; and

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements contained herein, the parties do hereby agree as follows:

1. **Definitions.** For purposes hereof:

"Affiliate" means any party controlled by, controlling under common control with, the party to whom the reference is made.

"Margin" means $[***] per pound of Terpene Product.

"Maximum Quantity" means [***] pounds of Terpene Product per Year, prorated for any partial Year included in the Term.

"Minimum Quantity" means [***] pounds of Terpene Product per Year, prorated for any partial Year included in the Term.

"Product Price" means with respect to a pound of Terpene Product the Terpene Cost of that Terpene Product, plus the Margin.

"Terpene Cost" means the cost per pound to FCC of the raw materials incorporated by FCC into Terpene Product, computed based on the methodology used by FCC to account for its inventory (e.g. LIFO, FIFO) (provided that such method is in accordance with Generally Accepted Accounting Principles, consistently applied), plus a deemed allocation of other manufacturing costs of FCC of $[***] per pound.

"Terpene Product" means terpene from citrus with a minimum d-limonene content of 94%, with the specifications set forth in Exhibit A to this Agreement.

"Year" means a calendar year.

2. **Purchase and Sale.** Flotek will from time to time during the Term purchase from FCC, and FCC will sell to Flotek, Terpene Product.

3. **Term**. The "Term" shall begin on the date hereof and shall expire December 31, 2023, subject to early termination pursuant to the terms of Section 19. Flotek, may, by written notice given to FCC on or before September 30, 2023, elect for the Term to be extended to December 31, 2024.

4. **Price.** The price per pound payable by Flotek to FCC for Terpene Product shall be the Product Price of that Terpene Product.

5. **Forecasts; Terpene Cost Information**.

(a) Flotek shall provide non-binding forecasts of orders of Terpene Product for each calendar quarter during the Term at least ten (10) days prior to the commencement of such quarter.

(b) Within fifteen (15) days of the end of each calendar quarter FCC shall provide to Flotek a written report providing reasonable detail regarding the cost of citrus terpene inventory.

6. **Orders; Delivery**.

(a) Flotek shall order Terpene Product by sending to FCC written purchase orders in the form attached hereto as Exhibit A. FCC shall promptly, but in no event later than three (3) days after the date of such purchase order, confirm its acceptance or rejection of such purchase order by written notice to Flotek. FCC shall be obligated to accept all such purchase orders unless the amount ordered for a Year exceeds the Maximum Quantity, or orders for a particular quarter exceed [***] pounds or exceed the Flotek forecast for that quarter by more than 25%, provided, however, that, in such event, FCC shall communicate Flotek of the time period that will be required to satisfy such order assuming FCC endeavors to satisfy such order as soon as practicable, and Flotek shall inform FCC within ten (10) days of such communication whether it will order such Terpene Product pursuant to the revised delivery terms.

(b) Shipments of Terpene Product to Flotek must be made by FCC from FCC's facility within three (3) days of the date of the applicable purchase order. Delivery terms shall be FOB Winter Haven, Florida. Transportation shall be arranged by Flotek. All sales of Terpene Product subject to this Agreement shall be pursuant to the terms and conditions attached hereto as Exhibit B.

(c) FCC shall invoice Flotek for Terpene Product at the time of shipment. Payment of FCC invoices shall be due within sixty (60) days of the respective invoice date.

(d) In the event that Flotek does not order the Minimum Quantity in a given Year, FCC may ship to Flotek the remaining quantity of Terpene Product prior to the end of such Year, and invoice Flotek as described in Section 6(c).

7. **Adjustments**. Representatives of Flotek and FCC shall consult with each other from time to time during the Term to discuss and resolve any issues arising from the performance of this Agreement. The parties may, by written agreement, revise the Maximum Quantity, the Margin, the Target Margin, or the Product Price. Flotek and FCC may agree in writing from time to time that quantities of Terpene Product over the Maximum Quantity shall be purchased by Flotek pursuant to this Agreement.

8. **Inspection and Audit.** Flotek shall have the right at any time to (i) inspect the facility of FCC in Winter Haven, Florida (the "Facility") and any other facility of FCC involved in the production of the Terpene Product, and (ii) audit the books and records of FCC. Any such inspection or audit shall be upon reasonable notice and shall not unreasonably interfere with the operations of FCC.

9. **Capacity**. FCC will throughout the Term maintain adequate manufacturing capacity and staffing to manufacture the Terpene Product pursuant to the terms hereof at the Facility.

10. **Force Majeure.** Fire, flood, strikes, lock-out, epidemic, or other acts of God beyond the reasonable control of the parties, which prevent FCC from delivering or Flotek from receiving and/or using the Terpene Product, shall operate to reduce or suspend deliveries during the period required to remove such cause. Any deliveries suspended under this paragraph shall be canceled without liability, and the Target Margin shall be correspondingly reduced. An event of Force Majeure shall not include (a) financial distress nor the inability of either party to make a profit or avoid a financial loss, (b) changes in the market prices or conditions, or (c) a party's financial inability to perform its obligations hereunder.

11. **Intellectual Property**. By acceptance of this Agreement and in consideration thereof, FCC warrants and agrees that, subject to other provisions of this clause, it will defend any suit that may arise against Flotek or any Affiliate thereof for alleged infringement of any patents, copyrights or similar intellectual property rights relating to the Terpene Product and that the FCC will indemnify and save harmless Flotek and any Affiliate thereof, against any loss, damages, costs and expenses including reasonable attorneys' fees, which may be incurred by Flotek or Affiliate by reason of the assertion of any such rights by other persons. Nothing in this Agreement shall obligate FCC to indemnify or save harmless Flotek or its Affiliates against third party claim alleging a violation of any patents, copyrights or similar intellectual property rights owned by Flotek or its Affiliates.

12. **Confidentiality**. All proprietary, technical, experimental, manufacturing, marketing and/or other information disclosed by a party hereto to the other party hereto pursuant to this Agreement are considered by the disclosing party as being highly confidential in nature. The recipient party agrees to take all reasonable precaution to prevent disclosure of such information to third parties. The recipient party shall hold in confidence any technical or business information the recipient party may learn, observe or otherwise obtain concerning the other party hereto, or of its Affiliates, incident to the recipient party's performance under the terms of this Agreement. These restrictions upon disclosure shall cease to apply as to any specific portion of said information which is or becomes available to the public generally, not due to the fault of the recipient party.

13. **Fulfilling Production Requirement**. Should FCC fail (due to causes within FCC's control) to meet Flotek's Terpene Product orders made in accordance with this Agreement, FCC shall be required (without limiting any other remedy of Flotek) to take all reasonable steps, including but not limited to working extra hours, shifts, or days to without otherwise limiting the remedies of Flotek, to fulfill FCC's obligations hereunder. All costs for such effort will be at FCC's expense. Further, FCC may use alternate shipping methods to expedite delivery to Flotek to meet schedules to which both parties agree. Additional

shipping costs resulting from expedited deliveries or use of alternate carriers due to causes within the FCC's control will be at FCC's expense.

14. **Rework and Product Liability Indemnification**. In the event of any defect in the Terpene Product delivered to Flotek hereunder, FCC will (without limiting any other remedy of Flotek), upon Flotek's request, replace any defective Terpene Product at the expense of FCC. In addition, FCC shall be responsible for claims by third parties against Flotek for loss or damage based on personal injury or destruction of property due solely to defects in Terpene Product. FCC shall be responsible for the defense, settlement or other final disposition of such claims and agrees to hold Flotek harmless from any expenses or liability arising out of such claims. Flotek may, at its option and expense, retain counsel to participate in the investigation and handling of such claims, although FCC shall have control of all such claims, and the Flotek shall not settle or otherwise dispose of any such claims without the written consent of the FCC.

15. **Personal Injury and Property Damage Liability Indemnification**. FCC assumes sole responsibility for taking all necessary health and safety precautions, including compliance with all applicable local, state, provincial and federal regulations, in producing Terpene Product under this Agreement. These precautions shall include, but not be limited to, such things as proper control of ventilation, the wearing of adequate protective clothing, and installation and proper utilization of appropriate environmental control equipment. FCC will supply Flotek with its Materials Safety Data Sheets with respect to the Terpene Product. FCC will defend, indemnify and hold harmless Flotek, its Affiliates, and their respective officers and employees from all claims, actions, losses, damages and expenses resulting from any injury to persons, damage to property or action by any regulatory agency, arising out of or in any way associated with the operation of the Facility or any other facility of FCC, including, without limitation, injuries to FCC's employees involved in these operations **REGARDLESS OF THE NEGLIGENCE OF ANY OF THE INDEMNIFIED PARTIES.** FCC agrees to provide $5,000,000 of commercial liability insurance in support of this indemnity which names Flotek as additional insured, with waiver of subrogation.

16. **Environmental Indemnity**. Each party hereto agrees to comply with all applicable federal, state provincial and or local environmental law, ordinances, codes, rules, regulations and permits and to handle all raw materials, off specification product, excess or scrap materials, waste, and finished products in an environmentally safe manner so as to prevent any contamination of the structure, soil or ground water in, on, or adjacent to its premises. Each party hereto agrees to indemnify the other party hereto, its Affiliates, subsidiaries, successors, assigns and their respective directors, officers, shareholders and employees and defend and save and hold each of them harmless from all liabilities, losses, claims, demands, assessments, fines, costs or expenses (including, without limitation, reasonable attorneys' and consultants' fees and expenses) of every kind, nature or description arising under common law or any applicable environmental law resulting from, arising out of or relating to any conditions or activities at or involving the premises of the indemnifying party **REGARDLESS OF THE NEGLIGENCE OF ANY OF THE INDEMNIFIED PARTIES.**

17. **Other Sales and Purchases**. FCC will be permitted during the Term to sell terpene to other parties who will utilize or resale such terpene for oilfield solvent applications. Notwithstanding any of the terms of this Agreement, Flotek shall not be restricted from purchasing any terpene-based product, including but not limited to, Terpene Product, from sources other than FCC.

18. **Termination**.

(a) Either Flotek or FCC may terminate the Term immediately, upon a written notice to the other such party, when one of the following events occurs:

(i) When the other Party materially violates one or more clause set forth herein or violates one or more purchase order relating to this Agreement and does not remedy such violation within 30 days from receiving the written notice from the other party of such fact ("Cure Period"). For the avoidance of doubt, the Parties understand that the postponing of the delivery of the Terpene Product pursuant to Section 11 of this Agreement, shall not be a cause for termination of the Term.

(ii) When one of the Parties is the subject of a request for voluntary and involuntary bankruptcy, recuperation or renewal, based on bankruptcy laws, or incurs in any equivalent situation.

The rights and obligations of the parties hereto pursuant to Sections 12, 13, 15, 16, 18, and 19 shall survive the Term.

19. **Warranties.** FCC warrants to Flotek that:

(a) all of the Terpene Product supplied by FCC to Flotek shall:

(i) conform to the specifications set forth in Section 1;

(ii) comply with all relevant laws and regulations including, without limitation, laws and regulations of each of the jurisdictions in which the Terpene Product are either manufactured or to be sold or used concerning purity, sanitation, safety, security, and packaging and labeling of food and beverage;

(iii) be in good condition at the time of delivery in all respects; and

(iv) be free from any defect in design, workmanship, materials and packaging; and

(b) it shall convey to Flotek good title to the Terpene Product free of any encumbrance, lien or security interest;

20. **Independent Contractor**. FCC is an independent contractor and it is the express understanding of the parties hereto that nothing herein contained shall create any relationship of master and servant, partner, principal and agent between the parties hereto, or their respective employees, servants or agents.

21. **Remedies.** If any legal action or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party or parties shall be entitled to recover reasonable attorneys' fees and other costs incurred in that action or proceeding in addition to any other relief to which it or he may be entitled at law or equity.

22. **Notices**. All notices, consents, demands or other communications required or permitted to be given pursuant to this Agreement shall be deemed sufficiently given when delivered personally during business days to the appropriate location described below or three (3) business days after the posting thereof by United States first class, registered or certified mail, return receipt requested, with postage fee prepaid and addressed or if sent by email to the email address indicated below, four hours after transmitted:

If to FCC: Florida Chemical Company, LLC
c/o Archer Daniels Midland Company
1261 Pacific Avenue
Erlanger, KY 41018
Attn: President, ADM Nutrition; Chief Financial Officer, WFSI; Chief Counsel, ADM Nutrition
Email: Vince.Macciocchi@adm.com, Jeff.W.Miller@adm.com and Louis.Proietti@adm.com

If to Flotek: Flotek Chemistry, LLC:
Attn: President
10603 W. Sam Houston Parkway N., Suite 300
Houston, Texas 77064
Tel: 713-849-9911
Fax: 281-605-5554
Email: jchisholm@flotekind.com

23. **Successors**. FCC may not assign or delegate its rights or obligations pursuant to this Agreement. Subject to the foregoing, this Agreement shall be binding upon each of the parties upon their execution, and inure to the benefit of the parties hereto and their successors and assigns. Any assignee whatsoever will be bound by the obligations of the assigning party under this Agreement, and any assignment shall not diminish the liability or obligation of the assignor under the terms of this Agreement unless otherwise agreed.

24. **Severability**. In the event that any one or more of the provisions contained in this Agreement or in any other instrument referred to herein, shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement or any such other instrument.

25. **Paragraph Headings**. The paragraph headings used herein are descriptive only and shall have no legal force or effect whatsoever.

26. **Gender**. Whenever the context so requires, the masculine shall include the feminine and neuter, and the singular shall include the plural and conversely.

27. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the state of Delaware.

28. **No Presumption Against Any Party** . Neither this Agreement nor any uncertainty or ambiguity in this Agreement shall be construed or resolved against any party, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each of the parties and their counsel (or the party has elected not to consult with counsel of its own choosing) and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties.

29. **Multiple Counterparts**. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original.

30. **Waiver.** Any waiver by either party to be enforceable must be in writing and no waiver by either party shall constitute a continuing waiver.

31. **Cross References**. References in this Agreement to Articles, Sections, Exhibits, or Schedules shall be deemed to be references to Articles, Sections, Exhibits, and Schedules of this Agreement unless the context specifically and expressly requires otherwise.

32. **Entire Agreement**. This Agreement and the other agreements referred to herein set forth the entire understanding of the parties hereto relating to the subject matter hereof and thereof and supersede all prior agreements and understandings among or between any of the parties relating to the subject matter hereof and thereof.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first set forth above.

FLORIDA CHEMICAL COMPANY, LLC:

By:	/s/ Elizabeth T. Wilkinson
Name:	Elizabeth T. Wilkinson
Title:	Chief Financial Officer

FLOTEK CHEMISTRY, LLC:

By:	/s/ Elizabeth T. Wilkinson
Name:	Elizabeth T. Wilkinson
Title:	Chief Financial Officer

SIGNATURE PAGE TO SUPPLY AGREEMENT

Information identified with "[***]" has been excluded from this exhibit because it is both not material and would likely cause competitive harm to the registrant if publicly disclosed.

SUPPLY AGREEMENT

This Supply Agreement (the "Agreement") is entered into as of February 28, 2019 by and between Florida Chemical Company, LLC, a Delaware limited liability company ("FCC"), and Flotek Chemistry, LLC, an Oklahoma limited liability company ("Flotek").

WHEREAS, the parties desire to set forth the terms pursuant to which Flotek will supply certain products to FCC;

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements contained herein, the parties do hereby agree as follows:

1. **Definitions.** For purposes hereof:

"Affiliate" means any party controlled by, controlling under common control with, the party to whom the reference is made.

"Margin" means $[***] per gallon of Product.

"Product" means Citrus Burst® 1, Citrus Burst® 2, Citrus Burst® 2 F, Citrus Burst® 3, Citrus Burst® 4, Citrus Burst® 5, Citrus Burst® 7, Citrus Burst® 8, Citrus Burst® 153, Citrus-Mulse®, Citrus-Solv® HP, Citrus-Solv™ HP, Citrus-Solv™ IG, Citrus-Solv™ MG, Citrus-Solv™ OT, Citrus-Solv™ Prime, Citrus-Solv™ Prime BHT, Whip-It CB 3 Eucalyptus, CITRUSoy® High Flash, CLEAN MAX, CLEAN MAX CD, CLEAN MAX CD 200, Clean Max®, Clean-Max® LT, Clean Max® CD, Clean Max® CD 200, EC 50/50 Blend, E-Z-Mulse®, FC PRO DIPENTENE, FC PRO PPR 300, FC PRO SURFACTANT 300, FC PRO SURFACTANT 400, FC PRO SURFACTANT 425, FC PRO SURFACTANT 430, FC PRO SURFACTANT 450, FC PRO SURFACTANT 500, FC PRO UltraSolv, FC-PRO Dipentene, FC-PRO Protect Low Temp, FC-PRO Rig Wash, FC-PRO Rig Wash 8020, FC-PRO Surfactant 300, FC-PRO Surfactant 400, FC-PRO Surfactant 425, FC-PRO Surfactant 430, FC-PRO Surfactant 450, FC-PRO Surfactant 500, FC-PRO Wellbore Cleaner, FC-PRO Wellbore Cleaner LT, FC-PRO Xylene Replacement, Limonene DX, Limonene EX, Limonene X, Natural Mulse®, P131R Solvent, Rig Chem Blend #1, Soy Methyl Ester, and Surfsol, with the specifications set forth in Exhibit A to this Agreement.

"Product Price" means with respect to a gallon of Product the Raw Material Cost of that Product, plus the Margin.

"Raw Material Cost" means the cost per gallon to Flotek of the raw materials incorporated by Flotek into Product, computed based on the methodology used by Flotek to account for its inventory (e.g. LIFO, FIFO) (provided that such method is in accordance with Generally Accepted Accounting Principles, consistently applied), plus a deemed allocation of other manufacturing costs of Flotek of $[***] per gallon.

"Year" means a calendar year.

2. **Purchase and Sale.** FCC will from time to time during the Term purchase from Flotek, and Flotek will sell to FCC, Product.

3. **Term**. The "Term" shall begin on the date hereof and shall expire December 31, 2023, subject to early termination pursuant to the terms of Section 19. FCC, may, by written notice given to Flotek on or before September 30, 2023, elect for the Term to be extended to December 31, 2024.

4. **Price**. The price per gallon payable by FCC to Flotek for Product shall be the Product Price of that Product.

5. **Forecasts**. FCC shall provide non-binding forecasts of orders of Product for each calendar quarter during the Term at least ten (10) days prior to the commencement of such quarter.

6. **Orders; Delivery**.

(a) FCC shall order Product by sending to Flotek written purchase orders in the form attached hereto as Exhibit B. Flotek shall promptly, but in no event later than three (3) days after the date of such purchase order, confirm its acceptance or rejection of such purchase order by written notice to FCC. Flotek shall be obligated to accept all such purchase orders unless the orders for a particular quarter exceed the capacity of Flotek or exceed the FCC forecast for that quarter by more than 25%, provided, however, that, in such event, Flotek shall communicate to FCC the time period that will be required to satisfy such order assuming Flotek endeavors to satisfy such order as soon as practicable, and FCC shall inform Flotek within ten (10) days of such communication whether it will order such Product pursuant to the revised delivery terms.

(b) Shipments of Product to FCC must be made by Flotek from Flotek's facility within three (3) days of the date of the applicable purchase order. Delivery terms shall be FOB Waller, Texas. Transportation shall be arranged by FCC. All sales of Product subject to this Agreement shall be pursuant to the terms and conditions attached hereto as Exhibit C.

(c) Flotek shall invoice FCC for Product at the time of shipment. Payment of Flotek invoices shall be due within sixty (60) days of the respective invoice date.

7. **Adjustments**. Representatives of Flotek and FCC shall consult with each other from time to time during the Term to discuss and resolve any issues arising from the performance of this Agreement. The parties may, by written agreement, revise the Margin or the Product Price.

8. **Inspection and Audit.** FCC shall have the right at any time to (i) inspect the facility of Flotek in Waller, Texas (the " Facility") and any other facility of Flotek involved in the production of the Product, and (ii) audit the books and records of Flotek to confirm compliance with this Agreement. Any such inspection or audit shall be upon reasonable notice and shall not unreasonably interfere with the operations of Flotek.

9. **Capacity**. Flotek will throughout the Term maintain adequate manufacturing capacity and staffing to manufacture the Product pursuant to the terms hereof at the Facility.

10. **Force Majeure.** Fire, flood, strikes, lock-out, epidemic, or other acts of God beyond the reasonable control of the parties, which prevent Flotek from delivering or FCC from receiving and/or using the Product, shall operate to reduce or suspend deliveries during the period required to remove such cause. Any deliveries suspended under this paragraph shall be canceled without liability. An event of Force Majeure shall not include (a) financial distress nor the inability of either party to make a profit or avoid a financial loss, (b) changes in the market prices or conditions, or (c) a party's financial inability to perform its obligations hereunder.

11. **Intellectual Property**. By acceptance of this Agreement and in consideration thereof, Flotek warrants and agrees that, subject to other provisions of this clause, it will defend any suit that may arise against FCC or any Affiliate thereof for alleged infringement of any patents, copyrights or similar intellectual property rights relating to a Product and that Flotek will indemnify and save harmless FCC and any Affiliate thereof, against any loss, damages, costs and expenses including reasonable attorneys' fees, which may be incurred by FCC or Affiliate by reason of the assertion of any such rights by other persons.

12. **Confidentiality**. All proprietary, technical, experimental, manufacturing, marketing and/or other information disclosed by a party hereto to the other party hereto pursuant to this Agreement are considered by the disclosing party as being highly confidential in nature. The recipient party agrees to take all reasonable precaution to prevent disclosure of such information to third parties. The recipient party shall hold in confidence any technical or business information the recipient party may learn, observe or otherwise obtain concerning the other party hereto, or of its Affiliates, incident to the recipient party's performance under the terms of this Agreement. These restrictions upon disclosure shall cease to apply as to any specific portion of said information which is or becomes available to the public generally, not due to the fault of the recipient party.

13. **Fulfilling Production Requirement**. Should Flotek fail (due to causes within Flotek's control) to meet FCC's Product orders made in accordance with this Agreement, Flotek shall be required (without limiting any other remedy of FCC) to take all reasonable steps, including but not limited to working extra hours, shifts, or days to without otherwise limiting the remedies of FCC, to fulfill Flotek's obligations hereunder. All costs for such effort will be at Flotek's expense. Further, Flotek may use alternate shipping methods to expedite delivery to FCC to meet schedules to which both parties agree. Additional shipping costs resulting from expedited deliveries or use of alternate carriers due to causes within Flotek's control will be at Flotek's expense.

14. **Rework and Product Liability Indemnification**. In the event of any defect in the Product delivered to FCC hereunder, Flotek will (without limiting any other remedy of FCC), upon FCC's request, replace any defective Product at the expense of Flotek. In addition, Flotek shall be responsible for claims by third parties against FCC for loss or damage based on personal injury or destruction of property due to defects in Product. Flotek shall be responsible for the defense, settlement or other final disposition of such claims and agrees to hold FCC harmless from any expenses or liability arising out of such claims. FCC may, at its option and expense, retain counsel to participate in the investigation and handling of such claims, although Flotek shall have control of all such claims, and FCC shall not settle or otherwise dispose of any such claims without the written consent of Flotek.

15. **Personal Injury and Property Damage Liability Indemnification**. Flotek assumes sole responsibility for taking all necessary health and safety precautions, including compliance with all applicable local, state, provincial and federal regulations, in producing Product under this Agreement. These precautions shall include, but not be limited to, such things as proper control of ventilation, the wearing of adequate protective clothing, and installation and proper utilization of appropriate environmental control equipment. Flotek will supply FCC with its Materials Safety Data Sheets with respect to the Product. Flotek will defend, indemnify and hold harmless FCC, its Affiliates, and their respective officers and employees from all claims, actions, losses, damages and expenses resulting from any injury to persons, damage to property or action by any regulatory agency, arising out of or in any way associated with the operation of the Facility or any other facility of Flotek, including, without limitation, injuries to Flotek's employees involved in these operations **REGARDLESS OF THE NEGLIGENCE OF ANY OF THE INDEMNIFIED PARTIES.** Flotek agrees to provide $5,000,000 of commercial liability insurance in support of this indemnity which names FCC as additional insured, with waiver of subrogation.

16. **Environmental Indemnity**. Each party hereto agrees to comply with all applicable federal, state provincial and or local environmental law, ordinances, codes, rules, regulations and permits and to handle all raw materials, off specification product, excess or scrap materials, waste, and finished products in an environmentally safe manner so as to prevent any contamination of the structure, soil or ground water in, on, or adjacent to its premises. Each party hereto agrees to indemnify the other party hereto, its Affiliates, subsidiaries, successors, assigns and their respective directors, officers, shareholders and employees and defend and save and hold each of them harmless from all liabilities, losses, claims, demands, assessments, fines, costs or expenses (including, without limitation, reasonable attorneys' and consultants' fees and expenses) of every kind, nature or description arising under common law or any applicable environmental law resulting from, arising out of or relating to any conditions or activities at or involving the premises of the indemnifying party **REGARDLESS OF THE NEGLIGENCE OF ANY OF THE INDEMNIFIED PARTIES.**

17. **Other Sales and Purchases**. Notwithstanding any of the terms of this Agreement, FCC shall not be restricted from purchasing any Product from sources other than Flotek.

18. **Termination**.

(a) Either Flotek or FCC may terminate the Term immediately, upon a written notice to the other such party, when one of the following events occurs:

(i) When the other party materially violates one or more clauses set forth herein or violates one or more purchase order relating to this Agreement and does not remedy such violation within 30 days from receiving the written notice from the other party of such fact ("Cure Period"). For the avoidance of doubt, the parties understand that the postponing of the delivery of Product pursuant to Section 10 of this Agreement, shall not be a cause for termination of the Term.

(ii) When one of the parties is the subject of a request for voluntary and involuntary bankruptcy, recuperation or renewal, based on bankruptcy laws, or involved in any equivalent situation.

The rights and obligations of the parties hereto pursuant to Sections 11, 13, and 14 shall survive the Term.

19. **Warranties.** Flotek warrants to FCC that:

(a) all of the Product supplied by Flotek to FCC shall:

(i) conform to the specifications set forth in Exhibit A;

(ii) comply with all relevant laws and regulations including, without limitation, laws and regulations of each of the jurisdictions in which the Product are either manufactured or to be sold or used concerning purity, sanitation, safety, security, and packaging and labeling of food and beverage;

(iii) be in good condition at the time of delivery in all respects; and

(iv) be free from any defect in design, workmanship, materials and packaging; and

(b) it shall convey to FCC good title to the Product free of any encumbrance, lien or security interest.

20. **Independent Contractor**. Flotek is an independent contractor and it is the express understanding of the parties hereto that nothing herein contained shall create any relationship of master and servant, partner, principal and agent between the parties hereto, or their respective employees, servants or agents.

21. **Remedies.** If any legal action or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party or parties shall be entitled to recover reasonable attorneys' fees and other costs incurred in that action or proceeding in addition to any other relief to which it or he may be entitled at law or equity.

22. **Notices**. All notices, consents, demands or other communications required or permitted to be given pursuant to this Agreement shall be deemed sufficiently given when delivered personally during business days to the appropriate location described below or three (3) business days after the posting thereof by United States first class, registered or certified mail, return receipt requested, with postage fee prepaid and addressed or if sent by email to the email address indicated below, four hours after transmitted:

If to FCC: Florida Chemical Company, LLC
c/o Archer Daniels Midland Company
1261 Pacific Avenue
Erlanger, KY 41018
Attn: President, ADM Nutrition; Chief Financial Officer, WFSI; Chief Counsel, ADM Nutrition
Email: Vince.Macciocchi@adm.com, Jeff.W.Miller@adm.com and Louis.Proietti@adm.com

If to Flotek: Flotek Chemistry, LLC:
Attn: President
10603 W. Sam Houston Parkway N., Suite 300
Houston, Texas 77064
Tel: 713-849-9911
Fax: 281-605-5554
Email: jchisholm@flotekind.com

23. **Successors**. Flotek may not assign or delegate its rights or obligations pursuant to this Agreement. Subject to the foregoing, this Agreement shall be binding upon each of the parties upon their execution, and inure to the benefit of the parties hereto and their successors and assigns. Any assignee whatsoever will be bound by the obligations of the assigning party under this Agreement, and any assignment shall not diminish the liability or obligation of the assignor under the terms of this Agreement unless otherwise agreed.

24. **Severability**. In the event that any one or more of the provisions contained in this Agreement or in any other instrument referred to herein, shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement or any such other instrument.

25. **Paragraph Headings**. The paragraph headings used herein are descriptive only and shall have no legal force or effect whatsoever.

26. **Gender**. Whenever the context so requires, the masculine shall include the feminine and neuter, and the singular shall include the plural and conversely.

27. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the state of Delaware.

28. **No Presumption Against Any Party** . Neither this Agreement nor any uncertainty or ambiguity in this Agreement shall be construed or resolved against any party, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each of the parties and their counsel (or the party has elected not to consult with counsel of its own choosing) and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties.

29. **Multiple Counterparts**. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original.

30. **Waiver.** Any waiver by either party to be enforceable must be in writing and no waiver by either party shall constitute a continuing waiver.

31. **Cross References**. References in this Agreement to Articles, Sections, Exhibits, or Schedules shall be deemed to be references to Articles, Sections, Exhibits, and Schedules of this Agreement unless the context specifically and expressly requires otherwise.

32. **Entire Agreement**. This Agreement and the other agreements referred to herein set forth the entire understanding of the parties hereto relating to the subject matter hereof and thereof and supersede all prior agreements and understandings among or between any of the parties relating to the subject matter hereof and thereof.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first set forth above.

FLORIDA CHEMICAL COMPANY, LLC:

By:	/s/ Elizabeth T. Wilkinson
Name:	Elizabeth T. Wilkinson
Title:	Chief Financial Officer

FLOTEK CHEMISTRY, LLC:

By:	/s/ Elizabeth T. Wilkinson
Name:	Elizabeth T. Wilkinson
Title:	Chief Financial Officer

SIGNATURE PAGE TO SUPPLY AGREEMENT

Exhibit 31.1

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 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:

   (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

President, Chief Executive Officer and Chairman of the Board

Date: May 8, 2019

Exhibit 31.2

CERTIFICATION

I, Elizabeth T. Wilkinson, 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 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:

   (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/ ELIZABETH T. WILKINSON

Elizabeth T. Wilkinson

Chief Financial Officer

Date: May 8, 2019

Exhibit 32.1

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 March 31, 2019, 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

President, Chief Executive Officer and Chairman of the Board

Date: May 8, 2019

Exhibit 32.2

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 March 31, 2019, 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/ ELIZABETH T. WILKINSON

Elizabeth T. Wilkinson

Chief Financial Officer

Date: May 8, 2019