

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

**FORM 10-Q**

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

For the quarterly period ended **June 30, 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**

**77064**

(Address of principal executive offices)

(Zip Code)

**(713) 849-9911**

(Registrant's telephone number, including area code)

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

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

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	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

As of July 31, 2019, there were 57,697,905 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)**

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 97,509	\$ 3,044
Restricted cash	661	—
Accounts receivable, net of allowance for doubtful accounts of \$1,676 and \$1,190 at June 30, 2019 and December 31, 2018, respectively	30,694	37,047
Inventories, net	26,442	27,289
Income taxes receivable	3,467	3,161
Assets held for sale	—	118,470
Other current assets	20,406	5,771
Total current assets	179,179	194,782
Property and equipment, net	41,760	45,485
Operating lease right-of-use assets	17,982	—
Deferred tax assets, net	605	18,663
Other intangible assets, net	24,290	26,827
Other long-term assets	—	126
<b>TOTAL ASSETS</b>	<b>\$ 263,816</b>	<b>\$ 285,883</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,858	\$ 15,011
Accrued liabilities	11,141	10,335
Income taxes payable	862	—
Interest payable	—	8
Liabilities held for sale	—	9,174
Current portion of lease liabilities	714	—
Long-term debt, classified as current	—	49,731
Total current liabilities	23,575	84,259
Long-term operating lease liabilities	18,256	—
Long-term finance lease liabilities	193	—
Deferred tax liabilities, net	116	—
Total liabilities	42,140	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; 62,955,872 shares issued and 57,688,578 shares outstanding at June 30, 2019; 62,162,875 shares issued and 57,342,279 shares outstanding at December 31, 2018	6	6
Additional paid-in capital	345,217	343,536
Accumulated other comprehensive loss	(998)	(1,116)
Retained earnings (accumulated deficit)	(89,171)	(107,565)
Treasury stock, at cost; 3,947,982 and 3,770,224 shares at June 30, 2019 and December 31, 2018, respectively	(33,378)	(33,237)
Total stockholders' equity	221,676	201,624
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 263,816</b>	<b>\$ 285,883</b>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Revenue</b>	\$ 34,692	\$ 39,546	\$ 77,949	\$ 80,615
<b>Costs and expenses:</b>				
Operating expenses (excluding depreciation and amortization)	38,306	35,544	82,904	72,199
Corporate general and administrative	6,054	8,665	13,335	17,158
Depreciation and amortization	2,119	2,343	4,379	4,676
Research and development	2,076	2,949	4,360	5,704
(Gain)/loss on disposal of long-lived assets	(4)	5	1,093	62
Impairment of goodwill	—	37,180	—	37,180
Total costs and expenses	48,551	86,686	106,071	136,979
<b>Loss from operations</b>	(13,859)	(47,140)	(28,122)	(56,364)
<b>Other (expense) income:</b>				
Interest expense	(16)	(640)	(2,014)	(1,156)
Loss on write-down of assets held for sale	—	(2,580)	—	(2,580)
Other income (expense), net	693	(2,499)	800	(2,609)
Total other income (expense)	677	(5,719)	(1,214)	(6,345)
<b>Loss before income taxes</b>	(13,182)	(52,859)	(29,336)	(62,709)
Income tax benefit (expense)	192	(16,128)	966	(15,807)
<b>Loss from continuing operations</b>	(12,990)	(68,987)	(28,370)	(78,516)
<b>Income (loss) from discontinued operations, net of tax</b>	(1,608)	(6,404)	46,764	3,192
<b>Net income (loss)</b>	\$ (14,598)	\$ (75,391)	18,394	(75,324)
<b>Net income attributable to noncontrolling interests</b>	—	357	—	357
<b>Net income (loss) attributable to Flotek Industries, Inc. (Flotek)</b>	\$ (14,598)	\$ (75,034)	\$ 18,394	\$ (74,967)
<b>Amounts attributable to Flotek shareholders:</b>				
Loss from continuing operations	\$ (12,990)	\$ (68,630)	\$ (28,370)	\$ (78,159)
Income (loss) from discontinued operations, net of tax	(1,608)	(6,404)	46,764	3,192
Net income (loss) attributable to Flotek	\$ (14,598)	\$ (75,034)	\$ 18,394	\$ (74,967)
<b>Basic earnings (loss) per common share:</b>				
Continuing operations	\$ (0.22)	\$ (1.19)	\$ (0.49)	\$ (1.36)
Discontinued operations, net of tax	(0.03)	(0.11)	0.80	0.06
Basic earnings (loss) per common share	\$ (0.25)	\$ (1.30)	\$ 0.31	\$ (1.30)
<b>Diluted earnings (loss) per common share:</b>				
Continuing operations	\$ (0.22)	\$ (1.19)	\$ (0.49)	\$ (1.36)
Discontinued operations, net of tax	(0.03)	(0.11)	0.80	0.06
Diluted earnings (loss) per common share	\$ (0.25)	\$ (1.30)	\$ 0.31	\$ (1.30)
<b>Weighted average common shares:</b>				
Weighted average common shares used in computing basic earnings (loss) per common share	58,608	57,869	58,491	57,566
Weighted average common shares used in computing diluted earnings (loss) per common share	58,608	57,869	58,491	57,566

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Loss from continuing operations	\$ (12,990)	\$ (68,987)	\$ (28,370)	\$ (78,516)
Income (loss) from discontinued operations, net of tax	(1,608)	(6,404)	46,764	3,192
Net income (loss)	(14,598)	(75,391)	18,394	(75,324)
Other comprehensive income (loss):				
Foreign currency translation adjustment	24	18	118	(161)
Comprehensive income (loss)	\$ (14,574)	\$ (75,373)	18,512	(75,485)
Net loss attributable to noncontrolling interests	—	357	—	357
Comprehensive income (loss) attributable to Flotek	\$ (14,574)	\$ (75,016)	\$ 18,512	\$ (75,128)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net income (loss) attributable to Flotek Industries, Inc. (Flotek)	\$ 18,394	\$ (74,967)
Income from discontinued operations, net of tax	46,764	3,192
Loss from continuing operations	(28,370)	(78,159)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	4,379	4,676
Amortization of deferred financing costs	1,428	192
Provision for doubtful accounts	102	(471)
Provision for excess and obsolete inventory	—	1,942
Impairment of goodwill	—	37,180
Loss on write-down of assets held for sale	—	2,580
Loss on disposal of long-lived assets	1,093	62
Non-cash lease expense	464	—
Stock compensation expense	1,669	4,385
Deferred income tax provision	17,855	15,459
Reduction in tax benefit related to share-based awards	24	72
Changes in current assets and liabilities:		
Restricted cash	(661)	—
Accounts receivable, net	6,289	5,881
Inventories, net	907	(2,080)
Income taxes receivable	(281)	63
Other current assets	(16,209)	1,151
Accounts payable	(4,157)	4,325
Accrued liabilities	(10,216)	(16,889)
Income taxes payable	1,182	—
Interest payable	(8)	(19)
Net cash used in operating activities	(24,510)	(19,650)
<b>Cash flows from investing activities:</b>		
Capital expenditures	(767)	(2,631)
Proceeds from sales of business	169,722	—
Proceeds from sale of assets	140	90
Purchase of patents and other intangible assets	(227)	(181)
Net cash provided by (used in) investing activities	168,868	(2,722)
<b>Cash flows from financing activities:</b>		
Borrowings on revolving credit facility	42,984	146,038
Repayments on revolving credit facility	(92,715)	(124,862)
Debt issuance costs	—	(98)
Purchase of treasury stock related to share-based awards	(142)	(24)
Proceeds from sale of common stock	—	247
Payments for finance leases	(38)	—
Loss from noncontrolling interest	—	(357)
Net cash (used in) provided by financing activities	(49,911)	20,944
<b>Discontinued operations:</b>		
Net cash (used in) provided by operating activities	(321)	644
Net cash provided by (used in) investing activities	337	(630)
Net cash flows provided by discontinued operations	16	14
Effect of changes in exchange rates on cash and cash equivalents	2	(74)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>94,465</b>	<b>(1,488)</b>
Cash and cash equivalents at the beginning of period	3,044	4,584
<b>Cash and cash equivalents at the end of period</b>	<b>\$ 97,509</b>	<b>\$ 3,096</b>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



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

**Three months ended June 30, 2019**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interests	Total Stockholders' Equity
	Shares Issued	Par Value	Shares	Cost					
Balance, March 31, 2019	62,199	\$ 6	3,845	\$ (33,368)	\$ 344,004	\$ (1,022)	\$ (74,573)	\$ —	\$ 235,047
Net income	—	—	—	—	—	—	(14,598)	—	(14,598)
Foreign currency translation adjustment	—	—	—	—	—	24	—	—	24
Restricted stock granted	757	—	—	—	—	—	—	—	—
Restricted stock forfeited	—	—	99	—	—	—	—	—	—
Treasury stock purchased	—	—	4	(10)	—	—	—	—	(10)
Stock compensation expense	—	—	—	—	1,213	—	—	—	1,213
Balance, June 30, 2019	<u>62,956</u>	<u>\$ 6</u>	<u>3,948</u>	<u>\$ (33,378)</u>	<u>\$ 345,217</u>	<u>\$ (998)</u>	<u>\$ (89,171)</u>	<u>\$ —</u>	<u>\$ 221,676</u>

**Three months ended June 30, 2018**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interests	Total Stockholders' Equity
	Shares Issued	Par Value	Shares	Cost					
Balance, March 31, 2018	61,161	\$ 6	3,599	\$ (33,067)	\$ 338,137	\$ (1,063)	\$ (37,158)	\$ 358	\$ 267,213
Net loss	—	—	—	—	—	—	(75,034)	(357)	(75,391)
Foreign currency translation adjustment	—	—	—	—	—	18	—	—	18
Stock issued under employee stock purchase plan	—	—	(36)	—	100	—	—	—	100
Restricted stock granted	481	—	—	—	—	—	—	—	—
Restricted stock forfeited	—	—	39	—	—	—	—	—	—
Treasury stock purchased	—	—	5	(21)	—	—	—	—	(21)
Stock compensation expense	—	—	—	—	2,381	—	—	—	2,381
Balance, June 30, 2018	<u>61,642</u>	<u>\$ 6</u>	<u>3,607</u>	<u>\$ (33,088)</u>	<u>\$ 340,618</u>	<u>\$ (1,045)</u>	<u>\$ (112,192)</u>	<u>\$ 1</u>	<u>\$ 194,300</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

**Six months ended June 30, 2019**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interests	Total Stockholders' 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	—	—	—	—	—	—	18,394	—	18,394
Foreign currency translation adjustment	—	—	—	—	—	118	—	—	118
Restricted stock granted	793	—	—	—	—	—	—	—	—
Restricted stock forfeited	—	—	133	—	—	—	—	—	—
Treasury stock purchased	—	—	45	(141)	—	—	—	—	(141)
Stock compensation expense	—	—	—	—	1,681	—	—	—	1,681
Balance, June 30, 2019	62,956	\$ 6	3,948	\$ (33,378)	\$ 345,217	\$ (998)	\$ (89,171)	\$ —	\$ 221,676

**Six months ended June 30, 2018**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interests	Total Stockholders' 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 loss	—	—	—	—	—	—	(74,967)	(357)	(75,324)
Foreign currency translation adjustment	—	—	—	—	—	(161)	—	—	(161)
Stock issued under employee stock purchase plan	—	—	(65)	—	247	—	—	—	247
Restricted stock granted	1,019	—	—	—	—	—	—	—	—
Restricted stock forfeited	—	—	45	—	—	—	—	—	—
Treasury stock purchased	—	—	6	(24)	—	—	—	—	(24)
Stock compensation expense	—	—	—	—	4,304	—	—	—	4,304
Balance, June 30, 2018	61,642	\$ 6	3,607	\$ (33,088)	\$ 340,618	\$ (1,045)	\$ (112,192)	\$ 1	\$ 194,300

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**FLOTEK INDUSTRIES, INC.**  
**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](http://www.sec.gov), under the Company’s ticker symbol (“FTK”) or on Flotek’s website, [www.flotekind.com](http://www.flotekind.com). The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results to be expected for the year ended 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 (loss) from discontinued operations” in the statement of operations and the related cash flows of this segment have 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

**FLOTEK INDUSTRIES, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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.

**FLOTEK INDUSTRIES, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**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.

As of June 30, 2019, the Company and ADM had not reached an agreement on the post-closing working capital adjustment. As of this filing, the Company is in process of engaging a third party to assist with reaching a conclusion.

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, which serves as a feedstock to some of the Company’s key value-added products. The term of the agreement runs 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 at variable prices 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 and six months ended June 30, 2019 and 2018 (in thousands):

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Consumer and Industrial Chemistry Technologies</b>				
Revenue	\$ —	\$ 19,540	\$ 11,031	\$ 38,987
Operating expenses	—	(18,066)	(11,572)	(34,236)
Depreciation and amortization	—	(682)	—	(1,351)
Research and development	—	(153)	(69)	(322)
(Loss) income from operations	—	639	(610)	3,078
Other income	—	366	35	192
Gain (Loss) on sale of business	(2,100)	—	67,694	—
(Loss) income before income taxes	(2,100)	1,005	67,119	3,270
Income tax benefit (expense)	492	(7,409)	(20,355)	(78)
Net income (loss) from discontinued operations	<u>\$ (1,608)</u>	<u>\$ (6,404)</u>	<u>\$ 46,764</u>	<u>\$ 3,192</u>

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The assets and liabilities held for sale on the Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018, are as follows (in thousands):

	<b>Consumer and Industrial Chemistry Technologies</b>	
	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>Assets:</b>		
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	<u>\$ —</u>	<u>\$ 118,470</u>
<b>Liabilities:</b>		
Accounts payable	\$ —	\$ 8,883
Accrued liabilities	—	291
Liabilities held for sale	<u>\$ —</u>	<u>\$ 9,174</u>

**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 leases for corporate offices, research and development facilities, warehouses, sales offices and equipment. 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.

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 expected 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 expected lease term.

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

	<b>Three months ended June 30, 2019</b>	<b>Six months ended June 30, 2019</b>
Operating lease expense	\$ 653	\$ 1,306
Finance lease expense:		
Amortization of right-of-use assets	220	220
Interest on lease liabilities	3	3
Total finance lease expense	223	223
Short-term lease expense	32	75
Total lease expense	<u>\$ 908</u>	<u>\$ 1,604</u>

**Cash paid for amounts included in the measurement of lease liabilities:**

Operating cash flows from operating leases	\$ 583	\$ 1,165
Operating cash flows from finance leases	3	3
Financing cash flows from finance leases	38	38

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

<b>Year ending December 31,</b>	<b>Operating Leases</b>	<b>Finance Leases</b>
2019 (excluding the three months ended June 30, 2019)	\$ 1,174	\$ 20
2020	2,348	71
2021	2,307	71
2022	2,270	39
2023	2,180	39
Thereafter	25,877	23
Total lease payments	\$ 36,156	\$ 263
Less: Interest	(17,213)	(43)
Present value of lease liabilities	\$ 18,943	\$ 220

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

	<b>June 30, 2019</b>
<b>Operating Leases</b>	
Operating lease right-of-use assets	\$ 17,982
Current portion of lease liabilities	\$ 687
Long-term operating lease liabilities	18,256
Total operating lease liabilities	\$ 18,943
<b>Finance Leases</b>	
Property and equipment	\$ 297
Accumulated depreciation	(10)
Property and equipment, net	\$ 287
Current portion of lease liabilities	\$ 27
Long-term finance lease liabilities	193
Total finance lease liabilities	\$ 220
<b>Weighted Average Remaining Lease Term</b>	
Operating leases	15.8 years
Finance leases	5.1 years
<b>Weighted Average Discount Rate</b>	
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.

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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 and six months ended June 30, 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 and six months ended June 30, 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 June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue:				
Products	\$ 33,632	\$ 38,213	\$ 75,703	\$ 78,142
Services	1,060	1,333	2,246	2,473
	\$ 34,692	\$ 39,546	\$ 77,949	\$ 80,615
Operating expenses (excluding depreciation and amortization):				
Products	\$ 37,798	\$ 34,062	\$ 81,877	\$ 69,247
Services	508	1,482	1,027	2,952
	\$ 38,306	\$ 35,544	\$ 82,904	\$ 72,199

*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.

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**Note 6 — Supplemental Cash Flow Information**

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

	Six months ended June 30,	
	2019	2018
Supplemental cash payment information:		
Interest paid	\$ 594	\$ 983
Income taxes paid, net of refunds	627	327

**Note 7 — Inventories**

Inventories are as follows (in thousands):

	June 30, 2019	December 31, 2018
Raw materials	\$ 11,076	\$ 10,608
Finished goods	16,284	18,798
Inventories	27,360	29,406
Less reserve for excess and obsolete inventory	(918)	(2,117)
Inventories, net	\$ 26,442	\$ 27,289

**Note 8 — Property and Equipment**

Property and equipment are as follows (in thousands):

	June 30, 2019	December 31, 2018
Land	\$ 4,372	\$ 4,372
Buildings and leasehold improvements	37,787	37,719
Machinery and equipment	26,802	26,995
Fixed assets in progress	639	581
Furniture and fixtures	1,733	1,573
Transportation equipment	1,700	1,852
Computer equipment and software	5,543	9,370
Property and equipment	78,576	82,462
Less accumulated depreciation	(36,816)	(36,977)
Property and equipment, net	\$ 41,760	\$ 45,485

Depreciation expense totaled \$1.6 million and \$2.0 million for the three months ended June 30, 2019 and 2018, respectively, and \$3.4 million and \$4.0 million for the six months ended June 30, 2019 and 2018, respectively.

During the three and six months ended June 30, 2019 and 2018, no impairments were recognized related to property and equipment.

**Note 9 — Goodwill**

During the second quarter of 2018, the Company recognized a goodwill impairment charge of \$37.2 million in the Energy Chemistry Technologies (“ECT”) reporting unit, which resulted from sustained under-performance and lower expectations related to the reporting unit. As a result of these factors, a qualitative analysis, and additional risks associated with the business, the Company concluded that sufficient indicators existed to require an interim quantitative assessment of goodwill for that reporting unit as of June 30, 2018. The fair value of the reporting unit was estimated based on an analysis of the present value of future discounted cash flows. The significant estimates used in the discounted cash flows model included the Company’s weighted average cost of capital, projected cash flows and the long-term rate of growth. The assumptions were based on the actual historical performance of the reporting unit and took into account a recent weakening of operating results in an improving market environment. The excess of the reporting unit’s carrying value over the estimated fair value was recorded as the goodwill impairment charge in the second quarter 2018 and represented all of the ECT reporting unit’s goodwill.

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The Company has no reporting units which had a goodwill balance at December 31, 2018, and there were no acquisitions during the three and six months ended June 30, 2019.

**Note 10 — Other Intangible Assets**

Other intangible assets are as follows (in thousands):

	June 30, 2019		December 31, 2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Finite-lived intangible assets:				
Patents and technology	\$ 18,851	\$ 7,270	\$ 18,884	\$ 6,689
Customer lists	15,367	5,636	15,367	5,259
Trademarks and brand names	1,358	1,140	1,485	1,149
Total finite-lived intangible assets acquired	35,576	14,046	35,736	13,097
Deferred financing costs	—	—	1,924	496
Total amortizable intangible assets	35,576	\$ 14,046	37,660	\$ 13,593
Indefinite-lived intangible assets:				
Trademarks and brand names	2,760		2,760	
Total other intangible assets	\$ 38,336		\$ 40,420	
Carrying value:				
Other intangible assets, net	\$ 24,290		\$ 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 June 30, 2019 and 2018, respectively, and \$1.0 million and \$0.7 million for the six months ended June 30, 2019 and 2018.

Amortization of deferred financing costs totaled zero and \$0.1 million for the three months ended June 30, 2019 and 2018, respectively, and \$1.4 million and 0.2 million for the six months ended June 30, 2019 and 2018.

**Note 11 — Long-Term Debt and Credit Facility**

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

	June 30, 2019	December 31, 2018
Long-term debt, classified as current:		
Borrowings under revolving credit facility	\$ —	\$ 49,731

Borrowing under the revolving credit agreement at December 31, 2018 was classified as current debt.

**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.

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**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 and six months ended June 30, 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 0.7 million restricted stock units for the three and six months ended June 30, 2019, and 0.9 million restricted stock units for the three and six months ended June 30, 2018.

**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 \$97.5 million, which consisted of cash equivalents of \$46.6 million in a government money market account and cash deposits of \$45.2 million in an interest bearing demand deposit account and \$5.7 million in operating cash accounts, at June 30, 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):

	<u>June 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Borrowings under Credit Facility	—	—	49,731	49,731

The carrying amount of borrowings under the 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. During the three months ended June 30, 2018, the Company recorded an impairment of \$37.2 million for goodwill in the Energy Chemistry Technologies reporting unit. No impairments of any of these assets were recognized during the three and six months ended June 30, 2019.

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**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 June 30,		Six months ended June 30,	
	2019	2018	2019	2018
U.S. federal statutory tax rate	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	1.7	1.0	1.0	(0.3)
Non-U.S. income taxed at different rates	0.7	(3.5)	1.0	0.3
Reduction in tax benefit related to stock-based awards	(1.1)	6.5	(1.8)	(1.5)
Non-deductible expenses	—	(9.5)	(0.3)	(9.3)
Research and development credit	0.4	(3.9)	0.6	0.6
Increase in valuation allowance	(20.7)	(42.2)	(17.9)	(36.0)
Other	(0.4)	—	(0.3)	—
Effective income tax rate	1.6 %	(30.6)%	3.3 %	(25.2)%

Fluctuations in effective tax rates have historically been impacted by permanent tax differences with no associated income tax impact, changes in the valuation allowance, 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 June 30, 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 would 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 six months ended June 30, 2019 is as follows:

Shares issued at December 31, 2018	62,162,875
Issued as restricted stock award grants	792,997
Shares issued at June 30, 2019	62,955,872

**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, 2018, the

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Company had repurchased \$0.3 million of its common stock under this authorization. During the three and six months ended June 30, 2019 and 2018, the Company did not repurchase any shares of its outstanding common stock under this authorization.

At June 30, 2019, the Company has \$49.7 million remaining under its share repurchase program.

**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 June 30,	Energy Chemistry Technologies		Corporate and Other		Total
2019					
Net revenue from external customers	\$	34,692	\$	—	\$ 34,692
Income (loss) from operations		(7,651)		(6,208)	(13,859)
Depreciation and amortization		1,933		186	2,119
Capital expenditures		306		—	306

2018					
Net revenue from external customers	\$	39,546	\$	—	\$ 39,546
Income (loss) from operations		(37,929)		(9,211)	(47,140)
Depreciation and amortization		1,797		546	2,343
Capital expenditures		1,167		87	1,254

For the six months ended June 30,	Energy Chemistry Technologies		Corporate and Other		Total
2019					
Net revenue from external customers	\$	77,949	\$	—	\$ 77,949
Income (loss) from operations		(12,984)		(15,138)	(28,122)
Depreciation and amortization		3,718		661	4,379
Capital expenditures		767		—	767

2018					
Net revenue from external customers	\$	80,615	\$	—	\$ 80,615
Income (loss) from operations		(38,095)		(18,269)	(56,364)
Depreciation and amortization		3,566		1,110	4,676
Capital expenditures		2,178		453	2,631

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

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Energy Chemistry Technologies	\$ 144,106	\$ 139,205
Corporate and Other	119,710	28,208
Total segments	263,816	167,413
Held for sale	—	118,470
Total assets	\$ 263,816	\$ 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):

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
U.S.	\$ 31,114	\$ 36,176	\$ 69,990	\$ 72,886
Other countries	3,578	3,370	7,959	7,729
Total	\$ 34,692	\$ 39,546	\$ 77,949	\$ 80,615

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:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Customer A	17.6%	*	15.4%	*
Customer B	11.0%	18.2%	11.3%	*
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.

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***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 invested in accounts in two major financial institutions 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.

## **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 have 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:

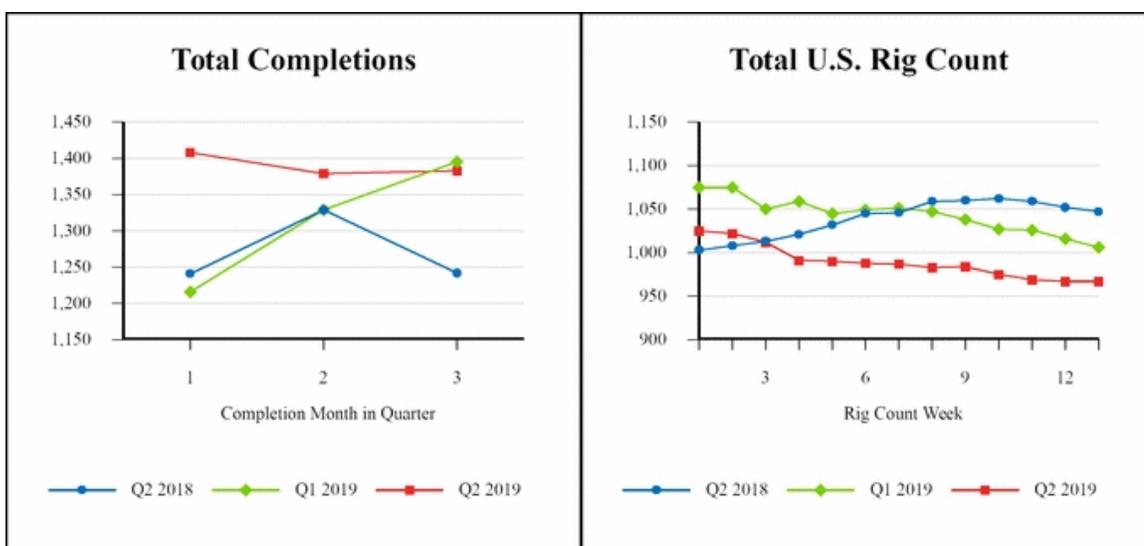
- Historical, current, and anticipated future production levels of the global citrus (primarily orange) crops,
- Weather related risks,
- Health and condition of citrus trees (e.g., disease and pests), and
- International competition and pricing pressures resulting from natural and artificial pricing 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 June 30,			Six months ended June 30,		
	2019	2018	% Change	2019	2018	% Change
<i>Average North American Active Drilling Rigs</i>						
U.S.	989	1,039	(4.8)%	1,016	1,003	1.3 %
Canada	82	108	(24.1)%	132	188	(29.8)%
Total	1,071	1,147	(6.6)%	1,148	1,191	(3.6)%
<i>Average U.S. Active Drilling Rigs by Type</i>						
Vertical	50	58	(13.8)%	56	61	(8.2)%
Horizontal	868	914	(5.0)%	893	874	2.2 %
Directional	71	67	6.0 %	67	68	(1.5)%
Total	989	1,039	(4.8)%	1,016	1,003	1.3 %
<i>Average North American Drilling Rigs by Product</i>						
Oil	844	899	(6.1)%	903	929	(2.8)%
Natural Gas	227	248	(8.5)%	247	262	(5.7)%
Total	1,071	1,147	(6.6)%	1,150	1,191	(3.4)%



Source: Rig counts are per Baker Hughes, Inc. ([www.bakerhughes.com](http://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 July 15, 2019.

Average U.S. rig activity decreased by 4.8% and increased by 1.3% for the three and six months ended June 30, 2019, respectively, when compared to the same periods of 2018, and sequentially, decreased by 5.2% when compared to the first quarter of 2019.

According to data collected by the U.S. Energy Information Administration (“EIA”) as reported on July 15, 2019, completions in the seven most prolific areas in the lower 48 states increased 9.4% and 12.6% for the three and six months ended June 30, 2019, respectively, when compared to the same periods of 2018. Completions increased 5.8% when compared to the first quarter of 2019.

### 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 soft and regulatory impediments are limited, the Company expects continued volatility in global oilfield activity for the remainder of 2019.

During the second 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 completions. As a result, they are focusing more on sourcing consumables, including chemistry, directly from manufacturers and other 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 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 \$0.8 million and \$2.6 million for the six months ended June 30, 2019 and 2018, respectively. For the remainder of 2019, the Company expects approximately \$2.9 million 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. In April 2019, the Company hired a new Senior Vice President of Global Sales & Business Development who now leads the Company’s domestic and international sales and business development strategies. The Company has commenced a process to rebuild and develop a more technically oriented sales organization. As a result of the transition, revenue for the remainder of 2019 may be negatively impacted relative to the first half of the year, as the new sales organization is fully integrated into the organization. The Company believes the opportunity it has taken to enhance the technical background of its sales personnel together with relationships built with its customers, and the demonstrated value and benefit of Flotek’s chemistries will help to mitigate potential revenue declines.

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 June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 34,692	\$ 39,546	\$ 77,949	\$ 80,615
Operating expenses (excluding depreciation and amortization)	38,306	35,544	82,904	72,199
Operating expenses %	110.4 %	89.9 %	106.4 %	89.6 %
Corporate general and administrative	6,054	8,665	13,335	17,158
Corporate general and administrative %	17.5 %	21.9 %	17.1 %	21.3 %
Depreciation and amortization	2,119	2,343	4,379	4,676
Research and development costs	2,076	2,949	4,360	5,704
(Gain)/loss on disposal of long-lived assets	(4)	5	1,093	62
Impairment of goodwill	—	37,180	—	37,180
Loss from operations	(13,859)	(47,140)	(28,122)	(56,364)
Operating margin %	(39.9)%	(119.2)%	(36.1)%	(69.9)%
Loss on write-down of assets held for sale	—	(2,580)	—	(2,580)
Interest and other income (expense), net	677	(3,139)	(1,214)	(3,765)
Loss before income taxes	(13,182)	(52,859)	(29,336)	(62,709)
Income tax benefit (expense)	192	(16,128)	966	(15,807)
Loss from continuing operations	(12,990)	(68,987)	(28,370)	(78,516)
Income (loss) from discontinued operations, net of tax	(1,608)	(6,404)	46,764	3,192
Net income (loss)	\$ (14,598)	\$ (75,391)	\$ 18,394	\$ (75,324)

**Consolidated Results of Operations: Three and Six Months Ended June 30, 2019, Compared to the Three and Six Months Ended June 30, 2018**

Consolidated revenue for the three and six months ended June 30, 2019, decreased \$4.9 million, or 12.3%, and \$2.7 million, or 3.3%, respectively, versus the same periods of 2018. The decrease in revenue was a result of continued volatile macro-environment for U.S. onshore drilling and completion activity, as well as the transition of personnel in the Company's sales organization, the deferral of completion activity into the third quarter by certain clients, and the utilization of performance-driven pricing programs for a limited number of strategic clients.

Operating expenses (excluding depreciation and amortization) for the three and six months ended June 30, 2019, increased \$2.8 million, or 7.8%, and \$10.7 million, or 14.8%, respectively, compared to the same periods of 2018, and, as a percentage of revenue, increased to 110.4% and 106.4%, for the three and six months ended June 30, 2019, respectively from 89.9% and 89.6% in the same periods of 2018. The increase is primarily due to increased material and direct labor costs, higher equipment and logistics expenditures, lower plant utilization, and a one-time charge related to the termination of an operations related contract, partially offset by reduced expenses related to the transition in the Company's sales organization.

Corporate general and administrative ("CG&A") expenses are not directly attributable to products sold or services provided. CG&A costs decreased \$2.6 million, or 30.1%, and \$3.8 million, or 22.3%, respectively, for the three and six months ended June 30, 2019, versus the same periods of 2018. As a percentage of revenue, CG&A decreased 4.4% and 4.2% for the three and six months ended June 30, 2019, respectively. The decrease in CG&A costs were primarily due to continuing the aggressive cost reduction measures which began in the last quarter of 2017, decreased consulting expenses associated with the ERP upgrade in 2018, and lower payroll related costs and stock compensation expense associated with reductions in headcount, partially offset by expenses associated with severance and certain shareholder-related activities in the first six months of 2019.

Depreciation and amortization expense decreased \$0.2 million, or 9.6%, and \$0.3 million, or 6.4%, for the three and six months ended June 30, 2019, respectively versus the same periods of 2018.

Research and Innovation ("R&I") expense decreased \$0.9 million, or 29.6%, and \$1.3 million, or 23.6%, for the three and six months ended June 30, 2019, respectively, compared to the same periods of 2018. The decrease is primarily due to lower personnel costs related to the reductions in headcount associated costs savings initiatives.

Loss on disposal of long-lived assets remained flat for the three months ended June 30, 2019 but increased \$1.0 million for the six months ended June 30, 2019, compared to the same periods of 2018, primarily due to the disposal of certain corporate software in the first quarter of 2019.

Interest and other expense decreased \$3.8 million and \$2.6 million for the three and six months ended June 30, 2019, respectively, versus the same periods of 2018, primarily due to a \$1.2 million write-off associated with the discontinuation of certain corporate projects during the second quarter 2018 and \$1.3 million related to moving from an interest expense position to an interest income position as a result of the sale of the CICT segment and subsequent termination of the Amended and Restated Revolving Credit, Term Loan and Security Agreement (as amended, the "Credit Facility") with PNC Bank in the first quarter 2019. The decrease is partially offset by the acceleration of \$1.4 million of unamortized debt issuance costs associated with the termination of the Credit Facility in the first quarter 2019.

The Company recorded an income tax benefit of \$0.2 million and \$1.0 million, yielding an effective tax benefit rate of 1.5% and 3.3%, for the three and six months ended June 30, 2019, respectively, compared to an income tax provision of \$16.1 million and \$15.8 million, yielding an effective tax provision rate of 30.5% and 25.2%, for the comparable periods 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 loss from discontinued operations of \$1.6 million and net income from discontinued operations of \$46.8 million for the three and six months ended June 30, 2019, respectively.

## **Results by Segment**

### ***Energy Chemistry Technologies ("ECT")*** ***(dollars in thousands)***

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Revenue	\$ 34,692	\$ 39,546	\$ 77,949	\$ 80,615
Loss from operations	(7,651)	(37,929)	(12,984)	(38,095)
Loss from operations - excluding impairment	(7,651)	(749)	(12,984)	(915)
Operating margin %	(22.1)%	(95.9)%	(16.7)%	(47.3)%

### ***ECT Results of Operations: Three and Six Months Ended June 30, 2019, Compared to the Three and Six Months Ended June 30, 2018***

ECT revenue for the three and six months ended June 30, 2019, decreased \$4.9 million, or 12.3%, and \$2.7 million, or 3.3%, respectively, and versus the same period of 2018. The decrease is primarily a result of the continued volatile macro-environment for U.S. onshore drilling and completion activity, as well as the transition of personnel in the Company's sales organization, the deferral of completion activity into the third quarter by certain clients, and utilization of performance-driven pricing programs for a limited number of strategic clients.

Loss from operations for the ECT segment improved \$30.3 million and \$25.1 million for the three and six months ended June 30, 2019, respectively, versus the same period of 2018, which was a result of 2018 including a non-recurring impairment of goodwill of \$37.2 million as well as lower inventory adjustments and reduced expenses related to the transition in the Company's sales organization. The improvement was partially offset by lower gross margin due to lower revenue and gross margin compression due to increased material and direct labor costs, higher equipment and logistics expenditures, lower plant utilization, and a one-time charge related to the termination of an operations related contract.

## **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 June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue	\$ —	\$ 19,540	\$ 11,031	\$ 38,987
Income (loss) from operations	—	639	(610)	3,078
Operating margin %	—%	3.3%	(5.5)%	7.9%

#### 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 June 30, 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 six months ended June 30, 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 six 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. 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 June 30, 2019, the Company had available cash and cash equivalents of \$97.5 million. For the remainder of 2019, the Company expects maintenance capital spending of approximately \$2.9 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 included under our share repurchase program 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):

	<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Net cash used in operating activities	\$ (24,510)	\$ (19,650)
Net cash provided by (used in) investing activities	168,868	(2,722)
Net cash (used in) provided by financing activities	(49,911)	20,944
Net cash flows provided by discontinued operations	16	14
Effect of changes in exchange rates on cash and cash equivalents	2	(74)
Net increase (decrease) in cash and cash equivalents	<u>\$ 94,465</u>	<u>\$ (1,488)</u>

### *Operating Activities*

Net cash used in operating activities was \$24.5 million and \$19.7 million during the six months ended June 30, 2019 and 2018, respectively. Consolidated net loss for the six months ended June 30, 2019 and 2018, totaled \$28.4 million and \$78.5 million, respectively.

During the six months ended June 30, 2019, net non-cash contributions to net income totaled \$27.0 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, \$5.8 million for depreciation and amortization, \$1.7 million for stock compensation expense, and \$1.1 million for net loss on disposal of long-lived assets.

During the six months ended June 30, 2018, net non-cash contributions to net income totaled \$66.1 million. Contributory non-cash items consisted primarily of \$37.2 million for the goodwill impairment charge, \$15.5 million for changes to deferred income taxes driven by the valuation allowance recorded against deferred tax assets, \$4.4 million for stock compensation expense, \$4.9 million for depreciation and amortization, \$2.6 million for the loss on write-down of assets held for sale, and \$1.9 million for provisions related to inventory reserves.

During the six months ended June 30, 2019, changes in working capital used \$23.2 million in cash, primarily resulting from increasing restricted cash, income taxes receivables and other current assets by \$17.2 million and decreasing accounts payable, accrued liabilities and interest payable \$14.3 million, partially offset by decreasing accounts receivable and inventories by \$7.2 million and increasing income tax payable by \$1.2 million.

During the six months ended June 30, 2018, changes in working capital used \$7.6 million in cash, primarily resulting from increasing inventory by \$2.0 million and decreasing accrued liabilities and interest payable by \$16.9 million, partially offset by decreasing accounts receivable, income tax receivable and other current assets by \$7.1 million and increasing accounts payable by \$4.3 million.

### *Investing Activities*

Net cash provided by investing activities was \$168.9 million for the six months ended June 30, 2019. Cash provided by investing activities primarily included \$169.7 million of proceeds received from the sale of the CICT segment, partially offset by \$0.8 million for capital expenditures and \$0.2 million for the purchase of various patents.

Net cash used in investing activities was \$2.7 million for the six months ended June 30, 2018. Cash used in investing activities primarily included \$2.6 million for capital expenditures and \$0.2 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 six months ended June 30, 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 \$20.9 million for the six months ended June 30, 2018, primarily due to receiving \$21.2 million for borrowings of debt, net of repayments, and receiving \$0.2 million in proceeds from the sale of common stock, partially offset by a loss from noncontrolling interest of \$0.4 million.

### **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 June 30, 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	260	70	109	78	3
Operating lease obligations	36,261	2,450	4,615	4,331	24,865
Total	\$ 36,521	\$ 2,520	\$ 4,724	\$ 4,409	\$ 24,868

In addition, the Company executed a long-term supply agreement for terpene product, which serves as a feedstock to some of the Company's key value-added products. The term of the agreement runs 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 at variable prices during the term of the agreement.

### **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 June 30, 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 June 30, 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 June 30, 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

#### *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 and Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 for a detailed discussion of the Company's risk factors. There have been no material changes to these risk factors.

## 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 June 30, 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)
April 1, 2019 to April 30, 2019	562	\$ 3.30	—	\$ 49,704,947
May 1, 2019 to May 31, 2019	—	\$ —	—	\$ 49,704,947
June 1, 2019 to June 30, 2019	3,247	\$ 3.04	—	\$ 49,704,947
Total	3,809	\$ 3.08	—	

(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 June 30, 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

None.

## 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). <sup>1</sup>
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	Employment Agreement, dated effective as of April 1, 2019, by and between the Company and John W. Chisholm (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on May 24, 2019)
10.2	First Amended and Restated Employment Agreement, dated effective as of April 1, 2019, by and between the Company and Elizabeth Wilkinson (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on May 24, 2019)
10.3	Termination and Release Agreement, dated as of May 20, 2019, by and among the Company, John W. Chisholm, Protechnics II, Inc. and Chisholm Management, Inc.
10.4	Stand-Alone Cash-Settled Restricted Stock Unit Agreement, dated as of May 20, 2019, by and between the Company and John W. Chisholm
10.5	Restricted Stock Agreement, dated as of May 24, 2019, by and between the Company and John W. Chisholm
10.6	Form of Restricted Stock Agreement pursuant to the Company's 2018 Long-Term Incentive Plan.
10.7	Form of Restricted Stock Agreement pursuant to the Company's 2019 Non-Employee Director Incentive Plan
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.

<sup>1</sup> 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.

<sup>2</sup> 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 and Chief Executive Officer**

Date: August 7, 2019

FLOTEK INDUSTRIES, INC.

By:           /s/ ELIZABETH T. WILKINSON            
**Elizabeth T. Wilkinson**  
**Chief Financial Officer**

Date: August 7, 2019

## TERMINATION AND RELEASE AGREEMENT

This Termination and Release Agreement (the “Agreement”) is entered into by and among Flotek Industries, Inc., a Delaware corporation (the “Company”), John W. Chisholm (“Chisholm”), Protechnics II, Inc. (“Protechnics”) and Chisholm Management, Inc. (“CMI” and Protechnics are collectively referred to as the “Chisholm Companies”).

**WHEREAS**, the Chisholm Companies and the Company have previously entered into that certain Fifth Amended and Restated Services Agreement (the “Service Agreement”);

**WHEREAS**, Chisholm and the Company have previously entered into that certain letter agreement dated April 15, 2014 (the “Letter Agreement”);

**WHEREAS**, Chisholm and the Company are entering into that certain Employment Agreement dated the date hereof, and effective as of April 1, 2019;

**NOW, THEREFORE, BE IT RESOLVED**, that:

1. Termination. The Service Agreement and the Letter Agreement are each hereby terminated by mutual agreement, and no party hereto will hereafter have any obligation under such agreements.

2. Survival of Tax Indemnity Obligations. The parties acknowledge that the United States Internal Revenue Service (“IRS”) has asserted that federal payroll taxes were not properly withheld and paid to the federal government regarding the services of John Chisholm under the Services Agreement. Therefore, the parties hereto agree that Par. 8.2 of the Services Agreement (“Tax Obligations”) shall survive the termination of the Services Agreement. The parties further acknowledge that the Guarantee dated May 8, 2019 regarding John Chisholm’s guaranty of the Chisholm Companies’ obligations under the Services Agreement shall likewise be unaffected by the termination of the Services Agreement.

3. Release. The terminations of the Service Agreement and the Letter Agreement pursuant to Section 1 (the “Terminations”) are in partial consideration for the execution of the Employment Agreement by the parties thereto. The Terminations shall not be considered a breach by the parties of Service Agreement or the Letter Agreement, or to in any way trigger an entitlement to Severance benefits under Section 6.3 of the Service Agreement. Neither the Terminations nor the execution and delivery of the Employment Agreement shall be considered a “Good Reason” for purposes of the Services Agreement. Each party hereto hereby releases the other parties hereto from any obligation, claims or liabilities relating to the Services Agreement and the Letter Agreement, known or unknown, including any actual or alleged breach thereof.

4. Choice of Law. All issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Texas or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Texas.

5. Arbitration and Equitable Remedies. Any dispute or controversy arising out of or relating to any interpretation, construction, performance or breach of this Agreement, shall be settled by arbitration to be held in Houston, Texas, in accordance with the rules then in effect of the American Arbitration Association, provided however, the parties will be entitled to full and liberal evidentiary discovery in accordance with the rules governing civil litigation in courts of the same jurisdiction. The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator’s decision in any court having jurisdiction. The Company shall pay the legal costs and expenses of such arbitration; however, the prevailing party shall be entitled to recover from the non-prevailing party all reasonable legal costs and expenses incurred including time of law firm staff, court costs, attorneys’ fees, and all other related expenses incurred in such arbitration.

IN WITNESS WHEREOF, the parties hereto have hereby executed this Agreement as of May 20, 2019.

**FLOTEK INDUSTRIES, INC.**

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

**PROTECHNICS II, INC.**

By: /s/John W. Chisholm  
Name: John W. Chisholm  
Title: General Manager

**CHISHOLM MANAGEMENT, INC.**

By: /s/John W. Chisholm  
Name: John W. Chisholm  
Title: Managing Director

**JOHN W. CHISHOLM**

John W. Chisholm  
John W. Chisholm

**FLOTEK INDUSTRIES, INC.**  
**STAND-ALONE CASH-SETTLED RESTRICTED STOCK UNIT AGREEMENT**

**1. Grant of Restricted Stock Units.** Subject to the conditions described in this agreement (this “Award Agreement”), Flotek Industries, Inc., a Delaware corporation (the “Company”), hereby agrees to grant John W. Chisholm (“Participant”) cash-settled Restricted Stock Units (“RSUs”) pursuant to the Company’s 2019 Performance Unit Plan in lieu of the Restricted Stock grant provided for therein pursuant to the Committee’s authority to settle such award in cash. For avoidance of doubt and for purposes of clarity, the RSUs granted pursuant to this Award Agreement are not being granted under the Flotek Industries Inc. 2018 Long-Term Incentive Plan or any other equity plan of the Company.

**2. Number of RSUs Granted.** 123,750 RSUs. Subject to the terms and conditions set forth in this Award Agreement, each Vested RSU entitles Participant to receive an amount equal to the Fair Market Value of one Share.

**3. Grant Date.** May 20, 2019.

**4. Vesting.** Subject to the satisfaction of the terms and conditions set forth in this Award Agreement, including Participant’s continued employment/service with the Company through the Vesting date, the RSUs shall Vest on March 31, 2020 (the “Vesting Date”).

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

**6. Forfeiture.**

(a) In the event of Participant’s Termination prior to March 31, 2020 that is by Participant and that is not for Good Reason, the unvested portion of the RSUs held by Participant at that time shall immediately be forfeited.

(b) The occurrence of any other Termination shall cause the portion of the RSUs that are not yet Vested to be considered immediately Vested, including, but not limited to, because of, (i) a Termination by the Company, whether or not for cause, (ii) the death of Participant, or (ii) the Disability of Participant. For purposes hereof, “Good Reason” shall exist upon the occurrence of one of the following Company actions (unless Participant consents in writing to such action(s)): (i) a material reduction of Participant’s salary and Participant’s benefits to which Participant was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to Participant’s duties, authority or responsibilities as in effect immediately prior to such reduction, or (iii) the relocation of Participant to a facility or a location more than fifty (50) miles from Participant’s then present location; provided, however, that (A) Participant must provide the Company with written notice of the occurrence of such action(s) within 60 days of the initial occurrence of such action(s) and of his intent to terminate employment based on such action(s), (B) the written notice must describe the event constituting Good Reason in reasonable detail, and (C) within 30 days from the date that such written notice is received by the Company, the Company must cure such action(s).

**7. Conversion and Settlement.** Subject to the terms of this Award Agreement, on the Vesting Date, each Vested RSU shall immediately and automatically be converted into a cash payment equal to the Fair Market Value of one Share on the Vesting Date, and paid to Participant, less any amounts withheld pursuant to Section 12(b), as soon as practicable (but in no event later than fifteen (15) days following the Vesting Date).

**8. Rights as Stockholder; Dividend Equivalents.**

(a) Participant’s receipt of the grant of the RSUs pursuant to this Award Agreement shall provide and confer no rights to, or status as, a stockholder or equity holder of the Company.

(b) Subject to the terms and conditions of this Award Agreement, Participant is hereby granted Dividend Equivalents to accompany each RSU. Dividend Equivalents shall be subject to the same restrictions on transferability, vesting and forfeitability and shall be payable at the same time as the RSUs with respect to which they are credited.

**9. Reorganization of the Company.** The existence of this Award Agreement shall not affect in any way the right or power of

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

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

**11. Amendment and Termination.** No amendment, alteration, suspension, or termination of this Award Agreement shall materially or adversely impair the rights of Participant (other than any amendment the Committee deems necessary in order to permit the RSUs to meet the requirements of the Code, or other applicable laws, or to prevent adverse tax consequences to Participant), unless otherwise mutually agreed upon by Participant and the Committee, which agreement must be in writing and signed by Participant and the Company.

**12. Taxes and Withholdings.**

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

(b) **Withholding.** Participant acknowledges that the Vesting and settlement of RSUs granted pursuant to this Award Agreement may result in federal, state or local tax withholding obligations. Participant understands and acknowledges that the Company will not settle the RSUs until it is satisfied that appropriate arrangements have been made to satisfy any tax obligation under this Award Agreement and agrees to make appropriate arrangements suitable to the Company for satisfaction of all tax withholding obligations. Further, Participant hereby agrees and grants to the Company the right to withhold from any payments or amounts of compensation, payable in cash or otherwise, in order to meet any tax withholding obligations under this Award Agreement. As such, if the Company requests that Participant take any action required to effect any action described in this Section and to satisfy the tax withholding obligation pursuant to this Award Agreement, Participant hereby agrees to promptly take any such action.

(c) **Section 409A Compliance.** The RSUs and this Award Agreement are intended to comply with Section 409A of the Code and this Award Agreement shall be construed and interpreted accordingly. If and to the extent any amount of compensation under this Award is to be paid, settled or provided by reason of Participant's termination of employment, then (a) such compensation shall be paid, settled or provided by reason of Participant's termination of employment only if that termination also constitutes a "separation from service" within the meaning of that term under Section 409A of the Code, and (b) if Participant is determined by the Committee to be a "specified employee" within the meaning of Section 409A of Code, all payments or provisions compensation that would otherwise be paid, settled or provided before the first day of the seventh calendar month beginning after the date Participant's separation from service (or, if earlier, Participant's date of death) shall be withheld and accumulated and paid or provided without interest on or as soon as practicable after the first day of the seventh calendar month beginning after the date Participant's separation from service (or, if earlier, Participant's date of death). Each payment or provision of compensation under this Award Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. References to termination of employment and similar concepts in this Award Agreement shall be interpreted and applied in accordance with the foregoing provisions.

**13. Adjustments.** In the event of any change in the outstanding Shares of Common Stock by reason of any stock split, stock dividend or other non-recurring dividends or distributions, recapitalization, merger, consolidation, spin-off, combination, repurchase or exchange of stock, reorganization, liquidation, dissolution or other similar corporate transaction that affects the Common Stock, an adjustment shall be made, as the Committee deems necessary or appropriate, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Award Agreement. Such adjustment may include an adjustment to the number and class of Shares underlying the RSUs. Notwithstanding the preceding, the number of Shares underlying the RSUs always shall be a whole number.

**14. Definitions.** As used herein, the following definitions shall apply:

(a) "Affiliate" means (i) any entity in which the Company, directly or indirectly, owns 50% or more of the combined voting power, as determined by the Committee, (ii) any trades or businesses, whether or not incorporated, which are members of controlled group or are under common control (as defined in Sections 414(b) or (c) of the Code) with the Company, or (iii) any other entity, approved as an Affiliate by the Committee, in which the Company or any of its other Affiliates has a material equity interest.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and the U.S. Treasury

regulations promulgated thereunder. Any reference to a section of the Code shall be deemed a reference to any successor or amended section of the Code.

(d) “Committee” means the Compensation Committee of the Board.

(e) “Common Stock” means the common stock, \$0.0001 par value per Share, of the Company.

(f) “Disability” means the condition of being unable to perform Participant’s material services for the Company for a period of 90 consecutive days or a total of 180 days, during any 365-day period, in either case as a result of incapacity due to mental or physical illness, which is determined to be total and permanent. A determination of Disability shall be made by a physician reasonably satisfactory to both Participant (or his guardian) and the Company, provided that if Participant and the Company do not agree on a physician, Participant (or his guardian) and the Company shall each select a physician and these two together shall select a third physician, whose determination as to Disability shall be final, binding, and conclusive with respect to all parties. Eligibility for disability benefits under any policy for long-term disability benefits provided to Participant by the Company shall conclusively establish Participant’s Disability.

(g) “Dividend Equivalent” means a notional credit to a bookkeeping account with respect to Participant in an amount equal to the value of dividends paid on one Share for each RSU held by Participant.

(h) “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, or if the Common Stock is regularly quoted by a recognized securities dealer, the Fair Market Value shall be the closing price of the Common Stock on such exchange or system for the Common Stock for the day of determination, as reported in The Wall Street Journal or such other source as the Committee deems reliable; or

(ii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Committee by a reasonable application of a reasonable valuation method.

Notwithstanding the foregoing to the contrary, for federal, state, and local income tax reporting purposes and for such other purposes as the Committee deems appropriate, Fair Market Value shall be determined by the Committee in accordance with uniform and nondiscriminatory standards adopted by it from time to time.

(i) “Forfeit” and variations thereof (whether or not capitalized) means to lose Participant’s rights under this Award Agreement prior to its Vesting as a result of cancellation, revocation, lapse, or expiration of the RSUs in accordance with the terms of this Award Agreement; and “forfeiture” means the loss of the rights that are so forfeited.

(j) “Restricted Stock Unit” means an unfunded and unsecured promise to deliver cash equal in value to the Fair Market Value of one Share in the Company on the date of Vesting.

(k) “Share” means a share of Common Stock, as adjusted in accordance with Section 13 of this Award Agreement.

(l) “Termination” and variations thereof (whether or not capitalized) means, with respect to Participant’s service to the Company or its Affiliates, the end of Participant’s employment, status as a non-employee director, or engagement or relationship as a consultant, as the case may be, which is intended and reasonably anticipated by the Company to result in the permanent cessation of services by Participant to the Company and its Affiliates in such capacity.

(m) “Vest,” “vesting”, and variations thereof (whether or not capitalized), means the lapsing or elimination of Participant’s risk of forfeiture with respect to the RSUs.

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

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

**17. Administration and Interpretation.** Any question or dispute regarding the interpretation of this Award Agreement or the receipt of the RSUs hereunder shall be submitted by Participant to the Committee. The resolution of such a dispute by the Committee shall be final and binding on all parties.

**18. Entire Agreement; Governing Law.** This Award Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersedes in its entirety all prior undertakings, representation and agreements between the Company, on one hand, and Participant on the other hand (whether oral or written, and whether express or implied) with respect to the subject matter hereof. This Award Agreement shall be construed in accordance with (excluding any conflict or choice of law provisions of) the laws of the State of Delaware to the extent federal law does not supersede and preempt Delaware law.

**19. No Effect on Terms of Employment, Directorship or Consulting Relationship.** This Award Agreement shall not confer upon Participant any right as a service provider, nor shall it interfere in any way with his right or the right of the Company or any Affiliate thereof to terminate Participant's service at any time, with or without cause, and with or without notice.

**20. Unfunded Obligation.** Any amounts payable to Participant pursuant to this Award Agreement shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974, as amended. Neither the Company nor any Affiliate thereof shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations under this Award Agreement. Any investments or the creation or maintenance of any trust for Participant's account shall not create or constitute a trust or fiduciary relationship between the Committee, the Company or any Affiliate thereof and Participant, or otherwise create any vested or beneficial interest in Participant or Participant's creditors in any assets of the Company or any Affiliate thereof. Participant shall have no claim against the Company or any Affiliate thereof for any changes in the value of any assets that may be invested or reinvested by the Company with respect to this Award Agreement.

**21. Construction.** Headings in this Award Agreement are included for convenience and shall not be considered in the interpretation of this Award Agreement. References to sections are to Sections of this Award Agreement unless otherwise indicated. Pronouns shall be construed to include the masculine, feminine, neutral, singular or plural as the identity of the antecedent may require. This Award Agreement shall be construed according to its fair meaning and shall not be strictly construed against the Company.

**22. Compensation Recoupment.** All compensation payable or paid under this Award Agreement shall be subject to the Company's ability to recover incentive-based compensation from executive officers, as is or may be required by the provisions of any clawback policy implemented by the Company, the Dodd-Frank Wall Street Reform and Consumer Protection Act, any regulations or rules promulgated thereunder, or any other clawback provision required by applicable law or the listing standards of any applicable stock exchange or national market system.

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

[SIGNATURE PAGE FOLLOWS]

**COMPANY:**

**FLOTEK INDUSTRIES, INC.**

By: /s/Elizabeth T. Wilkinson

Name: Elizabeth T. Wilkinson

Title: Chief Financial Officer

Date: May 20, 2019

**PARTICIPANT:**

John W. Chisholm

Address:

40 Buttonbrush Court  
Spring, TX 77380

Date: May 20, 2019

**FLOTEK INDUSTRIES, INC.**  
**RESTRICTED STOCK AGREEMENT**

**1. Grant of Restricted Stock.** Subject to the conditions described in this agreement (the “Award Agreement”) and in the Flotek Industries Inc. 2018 Long-Term Incentive Plan, as amended from time to time (the “Plan”), Flotek Industries, Inc., a Delaware corporation (the “Company”), hereby agrees to grant John W. Chisholm (“Participant”) shares of “Restricted Stock” of the Company. Capitalized terms not defined herein shall have the meanings given to them in the Plan, as applicable.

**2. Number of Shares of Restricted Stock Granted.** 85,000 shares of Restricted Stock (Common Stock of the Company, \$0.0001 par value per share).

**3. Grant Date.** May 24, 2019.

**4. Vesting.** Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, the Restricted Stock granted hereunder shall Vest upon Participant’s termination of employment or March 31, 2020, whichever is earlier. The occurrence of any of the following events shall cause the portion of the Restricted Stock which is not yet Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, or (iii) the Disability of Participant.

**5. Issuance and Transferability.**

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

“The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2018 Long-Term Incentive Plan, , as amended from time to time, and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement dated May 24, 2019.”

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

(c) Stock Power. Participant will deliver to the Company a stock power, in substantially the form as Exhibit A-1 attached hereto or such form as required by the Company, endorsed in blank, with respect to each Award of Restricted Stock.

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

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

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

**7. Reorganization of the Company.** The existence of this Award Agreement shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company’s capital structure or its business; any merger or consolidation of the Company; any issue of bonds, debentures, preferred or

prior preference stock ahead of or affecting the Restricted Stock or the rights thereof; the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

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

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

**10. Taxes and Withholdings.**

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

(b) Withholding. Participant acknowledges that the grant of Restricted Stock pursuant to this Award Agreement, and the Vesting and payment of any accrued dividends may result in federal, state or local tax withholding obligations. Participant understands and acknowledges that the Company will not deliver shares of Common Stock or make any payment of accrued dividends until it is satisfied that appropriate arrangements have been made to satisfy any tax obligation under this Award Agreement or the Plan and agrees to make appropriate arrangements suitable to the Company for satisfaction of all tax withholding obligations. The Company shall withhold or “net” from the shares of Common Stock otherwise to be issued to Participant the greatest number of whole shares of Common Stock having a Fair Market Value not in excess of the Company’s minimum tax withholding obligation. If the Company requests that Participant take any action required to effect any action described in this Section and to satisfy the tax withholding obligation pursuant to this Award Agreement and the Plan, Participant hereby agrees to promptly take any such action.

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

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

**COMPANY:**

**FLOTEK INDUSTRIES, INC.**

By: /s/Elizabeth T. Wilkinson

Name: Elizabeth T. Wilkinson

Title: Chief Financial Officer

Date: May 24, 2019

**PARTICIPANT:**

John W. Chisholm

Address:

40 Buttonbrush Court

Spring, TX 77380

Date: May 24, 2019

**FLOTEK INDUSTRIES, INC.**  
**FORM OF RESTRICTED STOCK AGREEMENT**

**1. Grant of Restricted Stock.** Subject to the conditions described in this agreement (the “Award Agreement”) and in the Flotek Industries Inc. 2018 Long-Term Incentive Plan, as amended from time to time (the “Plan”), Flotek Industries, Inc., a Delaware corporation (the “Company”), hereby agrees to grant \_\_\_\_\_ (“Participant”) shares of “Restricted Stock” of the Company.

**2. Number of Shares of Restricted Stock Granted.** \_\_\_\_\_ shares of Restricted Stock (Common Stock of the Company, \$0.0001 par value per share).

**3. Grant Date.** \_\_\_\_\_.

**4. Vesting.** Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, including Participant’s continued employment/service with the Company through the applicable Vesting date(s), \_\_\_\_\_ of the Restricted Stock granted hereunder shall Vest on \_\_\_\_\_.

**5. Issuance and Transferability.**

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

“The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2018 Long-Term Incentive Plan, as amended from time to time, and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement dated \_\_\_\_\_.”

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

(c) Stock Power. Participant will deliver to the Company a stock power, in substantially the form as Exhibit A-1 attached hereto or such form as required by the Company, endorsed in blank, with respect to each Award of Restricted Stock.

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

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

**6. Forfeiture.**

(a) In the event of Participant’s Termination for a reason other than a reason that causes Vesting pursuant to Section 6(b) or 6(c) of this Agreement, the unvested portion of the Restricted Stock held by Participant at that time shall immediately be forfeited and the Company shall repurchase such forfeited shares from the Participant for the lesser of (i) the amount paid by the Participant to the Company for such shares, if any, or (ii) the Fair Market Value of an equivalent number of shares of Common Stock determined on the date the Restricted Stock is forfeited.

(b) The occurrence of any of the following events shall cause the portion of the Restricted Stock which is not yet

Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, (iii) the Disability of Participant, or (iv) a termination by the Participant for Good Reason which occurs within 12 months after a Change in Control (as determined in the Plan). For purposes hereof, "Good Reason" shall exist upon the occurrence of one of the following Company actions (unless Participant consents in writing to such action(s)): (i) a material reduction of the Participant's salary and Participant's benefits to which the Participant was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to the Participant's duties, authority or responsibilities as in effect immediately prior to such reduction, or (iii) the relocation of the Participant to a facility or a location more than fifty (50) miles from the Participant's then present location; provided, however, that (A) Participant must provide the Company with written notice of the occurrence of such action(s) within 60 days of the initial occurrence of such action(s) and of his intent to terminate employment based on such action(s), (B) the written notice must describe the event constituting Good Reason in reasonable detail, and (C) within 30 days from the date that such written notice is received by the Company, the Company must cure such action(s).

(c) A Termination of the Participant by the Company which is not for Cause (and at a time that the Participant is otherwise willing and able to continue in employment) shall cause the portion of the Restricted Stock which is not yet Vested but which pursuant to its terms would with the passage of time only become Vested within twelve (12) months of the date of Termination to be considered immediately Vested. For clarity, (i) a Termination of the Participant by the Company which is not for Cause shall not cause the Vesting of any other portion of the Restricted Stock than that referred to in the immediately preceding sentence and (ii) no Termination causing Vesting pursuant to Section 6(b) shall be considered a Termination by the Company which is without Cause.

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

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

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

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

#### **11. Taxes and Withholdings.**

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

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

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

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

Agreement and assumes no liability whatsoever for the tax consequences to Participant.

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

**COMPANY:**

**FLOTEK INDUSTRIES, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**PARTICIPANT:**

\_\_\_\_\_

Address:

\_\_\_\_\_

\_\_\_\_\_

Date: \_\_\_\_\_



**FLOTEK INDUSTRIES, INC.**  
**FORM OF RESTRICTED STOCK AGREEMENT**

**1. Grant of Restricted Stock.** Subject to the conditions described in this agreement (the “Award Agreement”) and the Flotek Industries, Inc. 2019 Non-Employee Director Incentive Plan (the “Plan”), Flotek Industries, Inc., a Delaware corporation (the “Company”), hereby agrees to grant the Participant shares of “Restricted Stock” of the Company.

**2. Definitions.** The definitions of certain terms used in this Agreement are set forth in Exhibit A to this Award Agreement. Other capitalized terms used herein not defined herein shall have the meanings given said terms in the Plan, as applicable.

**3. Shares of Restricted Stock Granted.** Shares of Restricted Stock as indicated in Exhibit A are hereby issued to the Participant.

**4. Grant Date.** Indicated in Exhibit A.

**5. Vesting.**

(a) Vesting Schedule. Subject to the satisfaction of the terms and conditions set forth in the Plan and this Award Agreement, including Participant’s continued employment/service with the Company through the applicable vesting date set forth below, Participant shall vest in his/her rights under the Restricted Stock and the Company’s right to the return and reacquisition of such shares shall lapse with respect to the Restricted Stock as of the next annual meeting of the stockholders of the Company that follows the Grant Date (the “Vesting Date”).

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

**6. Issuance and Transferability.**

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

“The shares represented by this certificate have been issued pursuant to the terms of the Flotek Industries, Inc. 2019 Non-Employee Director Incentive Plan and may not be sold, pledged, transferred, assigned or otherwise encumbered in any manner except as is set forth in the terms of the Restricted Stock Agreement provided to you on this website.”

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

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

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

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

**7. Forfeiture.**

(a) In the event of Participant’s Termination by the Company or by Participant for any reason whatsoever other than

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

(b) If not already forfeited pursuant to Section 7(a), the occurrence of any of the following events prior to the Vesting Date shall cause the Restricted Stock which is not yet Vested to be considered immediately Vested: (i) a Change of Control, (ii) the death of Participant, (iii) a Termination which results from the Disability of Participant.

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

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

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

**11. Amendment and Termination .** This Award Agreement or the Plan may be amended or terminated in accordance with the terms of the Plan.

**12. Taxes and Withholdings.**

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

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

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

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

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

**15. Terms of the Plan Control.** This Award Agreement and the underlying Award are made pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, the terms of the Plan, as amended from time to time and

interpreted and applied by the Committee, shall govern and take precedence. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan, the terms of which are incorporated herein by reference.

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

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

[SIGNATURE PAGE FOLLOWS]

**COMPANY:**

**Flotek Industries, Inc.**

By: \_\_\_  
Name Printed: \_\_\_  
Title: \_\_\_

**PARTICIPANT:**

[NAME]

Address:

—  
—  
—  
—

**EXHIBIT A**

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Company Name Flotek Industries, Inc.

Plan Flotek Industries, Inc. 2019 Non-Employee Director Incentive Plan

Participant Id \_\_\_\_\_

Participant Name \_\_\_\_\_

Participant Address \_\_\_\_\_

Grant/Award Type \_\_\_\_\_

Share Amount \_\_\_\_\_

Grant/Award Price \_\_\_\_\_

Grant/Award Date \_\_\_\_\_

Expiration Date \_\_\_\_\_

VESTING SCHEDULE

**Vesting Date    No. of Shares    Percent**  
\_\_\_\_\_

**EXHIBIT B**

**Assignment Separate from Certificate**

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

Dated: \_\_, 20 \_\_.

Print Name

Signature

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

## 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

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John W. Chisholm

President, Chief Executive Officer and Chairman of the Board

Date: August 7, 2019

## 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

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Elizabeth T. Wilkinson

Chief Financial Officer

Date: August 7, 2019

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

In connection with the Quarterly Report of Flotek Industries, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 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

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

Date: August 7, 2019

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

In connection with the Quarterly Report of Flotek Industries, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 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

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Elizabeth T. Wilkinson  
Chief Financial Officer

Date: August 7, 2019