

**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 September 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number 1-13270

FLOTEK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**10603 W. Sam Houston Parkway N., Suite 300
Houston, TX**

(Address of principal executive offices)

90-0023731

(I.R.S. Employer
Identification No.)

77064

(Zip Code)

(713) 849-9911

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "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"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input 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 October 31, 2017, there were 56,825,819 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)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,942	\$ 4,823
Accounts receivable, net of allowance for doubtful accounts of \$1,089 and \$664 at September 30, 2017 and December 31, 2016, respectively	56,008	47,152
Inventories	70,716	58,283
Income taxes receivable	2,649	12,752
Assets held for sale	4,135	43,900
Other current assets	10,881	21,708
Total current assets	149,331	188,618
Property and equipment, net	73,711	74,691
Goodwill	56,660	56,660
Deferred tax assets, net	21,190	12,894
Other intangible assets, net	48,851	50,352
TOTAL ASSETS	\$ 349,743	\$ 383,215
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 21,725	\$ 29,960
Accrued liabilities	12,323	12,170
Interest payable	30	24
Liabilities held for sale	1,586	4,961
Current portion of long-term debt	40,589	40,566
Total current liabilities	76,253	87,681
Long-term debt, less current portion	—	7,833
Total liabilities	76,253	95,514
Commitments and contingencies		
Equity:		
Cumulative convertible 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; 60,621,786 shares issued and 56,802,456 shares outstanding at September 30, 2017; 59,684,669 shares issued and 56,972,580 shares outstanding at December 31, 2016	6	6
Additional paid-in capital	334,490	318,392
Accumulated other comprehensive income (loss)	(822)	(956)
Retained earnings (accumulated deficit)	(28,736)	(9,830)
Treasury stock, at cost; 3,354,344 and 2,028,847 shares at September 30, 2017 and December 31, 2016, respectively	(31,806)	(20,269)
Flotek Industries, Inc. stockholders' equity	273,132	287,343
Noncontrolling interests	358	358
Total equity	273,490	287,701
TOTAL LIABILITIES AND EQUITY	\$ 349,743	\$ 383,215

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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 79,458	\$ 64,337	\$ 244,589	\$ 192,227
Cost of revenue	57,718	41,983	169,016	124,362
Gross profit	21,740	22,354	75,573	67,865
Expenses:				
Corporate general and administrative	10,346	10,302	33,773	30,398
Segment selling and administrative	9,277	9,775	28,972	26,879
Depreciation and amortization	2,540	2,217	7,464	6,024
Research and development	2,691	2,327	9,940	6,323
(Gain) loss on disposal of long-lived assets	(11)	(14)	401	(29)
Total expenses	24,843	24,607	80,550	69,595
Loss from operations	(3,103)	(2,253)	(4,977)	(1,730)
Other (expense) income:				
Interest expense	(574)	(518)	(1,718)	(1,536)
Other (expense) income, net	273	(41)	664	(94)
Total other expense	(301)	(559)	(1,054)	(1,630)
Loss before income taxes	(3,404)	(2,812)	(6,031)	(3,360)
Income tax (expense) benefit	(17)	942	746	1,349
Loss from continuing operations	(3,421)	(1,870)	(5,285)	(2,011)
Income (loss) from discontinued operations, net of tax	319	(876)	(13,621)	(33,200)
Net loss	\$ (3,102)	\$ (2,746)	\$ (18,906)	\$ (35,211)
Basic earnings (loss) per common share:				
Continuing operations	\$ (0.06)	\$ (0.03)	\$ (0.09)	\$ (0.04)
Discontinued operations, net of tax	0.01	(0.02)	(0.24)	(0.60)
Basic earnings (loss) per common share	\$ (0.05)	\$ (0.05)	\$ (0.33)	\$ (0.64)
Diluted earnings (loss) per common share:				
Continuing operations	\$ (0.06)	\$ (0.03)	\$ (0.09)	\$ (0.04)
Discontinued operations, net of tax	0.01	(0.02)	(0.24)	(0.60)
Diluted earnings (loss) per common share	\$ (0.05)	\$ (0.05)	\$ (0.33)	\$ (0.64)
Weighted average common shares:				
Weighted average common shares used in computing basic earnings (loss) per common share	57,602	56,899	57,709	55,523
Weighted average common shares used in computing diluted earnings (loss) per common share	57,602	56,899	57,709	55,523

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Loss from continuing operations	\$ (3,421)	\$ (1,870)	\$ (5,285)	\$ (2,011)
Income (loss) from discontinued operations, net of tax	319	(876)	(13,621)	(33,200)
Net loss	(3,102)	(2,746)	(18,906)	(35,211)
Other comprehensive income (loss):				
Foreign currency translation adjustment	148	(68)	134	256
Comprehensive income (loss)	\$ (2,954)	\$ (2,814)	\$ (18,772)	\$ (34,955)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine months ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$ (18,906)	\$ (35,211)
Loss from discontinued operations, net of tax	(13,621)	(33,200)
Loss from continuing operations	(5,285)	(2,011)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,091	7,380
Amortization of deferred financing costs	376	308
Loss (gain) on sale of assets	401	(29)
Stock compensation expense	9,679	8,591
Deferred income tax benefit	(8,290)	(6,309)
Reduction in tax benefit related to share-based awards	915	883
Changes in current assets and liabilities:		
Accounts receivable, net	(8,704)	(7,572)
Inventories	(12,213)	(2,959)
Income taxes receivable	9,254	(13,687)
Other current assets	12,649	(51)
Accounts payable	(8,262)	5,959
Accrued liabilities	1,561	10,434
Income taxes payable	—	(1,807)
Interest payable	6	45
Net cash provided by (used in) operating activities	1,178	(825)
Cash flows from investing activities:		
Capital expenditures	(6,155)	(10,618)
Proceeds from sales of businesses	18,490	—
Proceeds from sale of assets	321	38
Payments for acquisition, net of cash acquired	—	(7,863)
Purchase of patents and other intangible assets	(817)	(311)
Net cash provided by (used in) investing activities	11,839	(18,754)
Cash flows from financing activities:		
Repayments of indebtedness	(9,833)	(15,398)
Borrowings on revolving credit facility	310,021	256,738
Repayments on revolving credit facility	(307,998)	(249,324)
Debt issuance costs	(106)	(147)
Reduction in tax benefit related to share-based awards	—	(883)
Purchase of treasury stock related to share-based awards	(1,500)	(925)
Proceeds from sale of common stock	530	30,610
Repurchase of common stock	(4,174)	—
Proceeds from exercise of stock options	21	134
Net cash (used in) provided by financing activities	(13,039)	20,805
Discontinued operations:		
Net cash used in operating activities	(695)	(82)
Net cash provided by investing activities	708	74
Net cash flows provided by (used in) discontinued operations	13	(8)
Effect of changes in exchange rates on cash and cash equivalents	128	48
Net increase in cash and cash equivalents	119	1,266
Cash and cash equivalents at the beginning of period	4,823	2,208
Cash and cash equivalents at the end of period	\$ 4,942	\$ 3,474

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Non-controlling Interests	Total Equity
	Shares Issued	Par Value	Shares	Cost					
Balance, December 31, 2016	59,685	\$ 6	2,029	\$ (20,269)	\$ 318,392	\$ (956)	\$ (9,830)	\$ 358	\$ 287,701
Net loss	—	—	—	—	—	—	(18,906)	—	(18,906)
Foreign currency translation adjustment	—	—	—	—	—	134	—	—	134
Stock issued under employee stock purchase plan	—	—	(81)	—	530	—	—	—	530
Common stock issued in payment of accrued liability	—	—	—	—	188	—	—	—	188
Stock options exercised	663	—	—	—	5,884	—	—	—	5,884
Stock surrendered for exercise of stock options	—	—	478	(5,863)	—	—	—	—	(5,863)
Restricted stock granted	274	—	—	—	—	—	—	—	—
Restricted stock forfeited	—	—	97	—	—	—	—	—	—
Treasury stock purchased	—	—	151	(1,500)	—	—	—	—	(1,500)
Stock compensation expense	—	—	—	—	9,496	—	—	—	9,496
Repurchase of common stock	—	—	680	(4,174)	—	—	—	—	(4,174)
Balance, September 30, 2017	60,622	\$ 6	3,354	\$ (31,806)	\$ 334,490	\$ (822)	\$ (28,736)	\$ 358	\$ 273,490

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 a global, diversified, technology-driven company that develops and supplies chemistries and services to the oil and gas industries, and high value compounds to companies that make food and beverages, cleaning products, cosmetics, and other products that are sold in consumer and industrial markets.

The Company’s oilfield business includes specialty chemistries and logistics which enable its customers in pursuing improved efficiencies in the drilling and completion of their wells. The Company also provides automated bulk material handling, loading facilities, and blending capabilities. The Company processes 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 20 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 serves 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.

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, 2016 (“Annual Report”). A copy of the Annual Report is available on the SEC’s website, www.sec.gov, under the Company’s ticker symbol (“FTK”) or on Flotek’s website, www.flotekind.com. The results of operations for the three and nine months ended September 30, 2017, are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

During the fourth quarter of 2016, the Company classified the Drilling Technologies and Production Technologies segments as held for sale based on management’s intention to sell these businesses. The Company’s historical financial statements have been revised to present the operating results of the Drilling Technologies and Production Technologies segments as discontinued operations. The results of operations of Drilling Technologies and Production Technologies are presented as “Loss from discontinued operations” in the statement of operations and the related cash flows of these segments has been reclassified to discontinued operations for all periods presented. The assets and liabilities of the Drilling Technologies and Production Technologies segments have been reclassified to “Assets held for sale” and “Liabilities held for sale”, respectively, in the consolidated balance sheets for all periods presented.

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 income (loss).

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

Note 2 — Recent Accounting Pronouncements

Application of New Accounting Standards

Effective January 1, 2017, the Company adopted the accounting guidance in Accounting Standards Update (“ASU”) No. 2015-11, “*Simplifying the Measurement of Inventory*.” This standard requires management to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Implementation of this standard did not have a material effect on the consolidated financial statements and related disclosures.

Effective January 1, 2017, the Company adopted the accounting guidance in ASU No. 2015-17, “*Balance Sheet Classification of Deferred Taxes*.” This standard eliminated the requirement for organizations to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, organizations are now required to classify all deferred tax assets and liabilities as noncurrent. Implementation of this standard did not have a material effect on the consolidated financial statements and related disclosures. The Company applied this standard retrospectively and, therefore, prior periods presented were adjusted.

Effective January 1, 2017, the Company adopted the accounting guidance in ASU No. 2016-09, “*Improvements to Employee Share-Based Payment Accounting*.” This standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance requires excess tax benefits and deficiencies to be recognized in the income statement rather than in additional paid-in capital. As a result of applying this change, the Company recognized a \$0.9 million reduction in tax benefit in the provision for incomes taxes during the nine months ended September 30, 2017. The Company applied this standard prospectively, where applicable, and, therefore, prior periods presented were not adjusted.

New Accounting Requirements and Disclosures

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, “*Revenue from Contracts with Customers*.” The ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity’s nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date by one year to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In March 2016, the FASB issued ASU No. 2016-08, which improves the operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, which clarifies identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-11, which rescinds certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, effective upon adoption of ASU 2014-09, and ASU No. 2016-12, which reduces the potential for diversity in practice at initial application and reduces the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. In December 2016, the FASB issued ASU No. 2016-20, which provides technical corrections and improvements to the original guidance issued. The Company intends to adopt the new standard in the first quarter of 2018 and is still evaluating which method to implement based on continued review of past and anticipated revenue streams given the change in strategic focus of the business during 2017. The Company has identified key contract types representative of its business for comparing historical accounting policies and practices to the new standard and is continuing to evaluate the impact these pronouncements will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases*.” This standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. The pronouncement is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period and should be applied using a modified retrospective transition approach, with early application permitted. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related 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.

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

In August 2016, the FASB issued ASU No. 2016-15, “*Classification of Certain Cash Receipts and Cash Payments.*” This standard addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The pronouncement is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, “*Clarifying the Definition of a Business.*” This standard provides additional guidance on whether an integrated set of assets and activities constitutes a business. The pronouncement is effective for annual periods beginning after December 15, 2017, including interim periods within those periods, with early adoption permitted in specific instances. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, “*Simplifying the Test for Goodwill Impairment.*” This standard eliminates Step 2 from the goodwill impairment test. An entity will now recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The pronouncement is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, “*Scope of Modification Accounting.*” This standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. The pronouncement is effective for annual periods beginning after December 15, 2017, including interim periods within those periods, with early adoption permitted. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

Note 3 — Discontinued Operations

During the fourth quarter 2016, the Company initiated a strategic restructuring of its business to enable a greater focus on its core businesses in energy chemistry and consumer and industrial chemistry. The Company executed a plan to sell or otherwise dispose of the Drilling Technologies and Production Technologies segments. An investment banking advisory services firm was engaged and actively marketed these segments.

The Company met all of the criteria to classify the Drilling Technologies and Production Technologies segments’ assets and liabilities as held for sale in the fourth quarter 2016. Effective December 31, 2016, the Company classified the assets, liabilities, and results of operations for these two segments as “Discontinued Operations” for all periods presented.

Disposal of the Drilling Technologies and Production Technologies reporting segments represented a strategic shift that would have a major effect on the Company’s operations and financial results. Management expects the sale or disposal of the assets of these segments to be completed by the end of 2017.

On May 22, 2017, the Company completed the sale of substantially all of the assets and transfer of certain specified liabilities and obligations of the Company’s Drilling Technologies segment to National Oilwell Varco, L.P. (“NOV”) for \$17.0 million in cash consideration, subject to normal working capital adjustments, with \$1.5 million held back by NOV for up to 18 months to satisfy potential indemnification claims.

On May 23, 2017, the Company completed the sale of substantially all of the assets and transfer of certain specified liabilities and obligations of the Company’s Production Technologies segment to Raptor Lift Solutions, LLC (“Raptor Lift”) for \$2.9 million in cash consideration, with \$0.4 million held back by Raptor Lift to satisfy potential indemnification claims.

On August 16, 2017, the Company completed the sale of substantially all of the remaining assets of the Company’s Drilling Technologies segment to Galleon Mining Tools, Inc. for \$1.0 million in cash consideration and a note receivable of \$1.0 million due in one year.

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

The following summarized financial information has been segregated from continuing operations and reported as Discontinued Operations for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Drilling Technologies				
Revenue	\$ —	\$ 7,197	\$ 11,534	\$ 20,026
Cost of revenue	—	(4,290)	(7,259)	(13,876)
Selling, general and administrative	(791)	(3,568)	(6,562)	(11,723)
Depreciation and amortization	—	(340)	—	(1,425)
Research and development	—	—	(6)	(65)
Gain on disposal of long-lived assets	36	77	97	92
Impairment of inventory and long-lived assets	—	—	—	(36,522)
Loss from operations	(755)	(924)	(2,196)	(43,493)
Other income (expense)	26	(77)	(91)	(320)
Gain (loss) on sales of businesses	463	—	(902)	—
Loss on write-down of assets held for sale	—	—	(6,831)	—
Loss before income taxes	(266)	(1,001)	(10,020)	(43,813)
Income tax benefit	581	592	3,473	15,673
Net income (loss) from discontinued operations	<u>\$ 315</u>	<u>\$ (409)</u>	<u>\$ (6,547)</u>	<u>\$ (28,140)</u>
Production Technologies				
Revenue	\$ —	\$ 2,145	\$ 4,002	\$ 6,034
Cost of revenue	—	(2,040)	(3,189)	(5,833)
Selling, general and administrative	(64)	(878)	(1,739)	(2,929)
Depreciation and amortization	—	(149)	—	(447)
Research and development	—	(204)	(364)	(671)
Gain (loss) on disposal of long-lived assets	—	8	—	(51)
Impairment of inventory	—	—	—	(3,913)
Loss from operations	(64)	(1,118)	(1,290)	(7,810)
Other expense	—	(24)	(52)	(68)
Gain on sale of businesses	61	—	233	—
Loss on write-down of assets held for sale	—	—	(9,718)	—
Loss before income taxes	(3)	(1,142)	(10,827)	(7,878)
Income tax benefit	7	675	3,753	2,818
Net income (loss) from discontinued operations	<u>\$ 4</u>	<u>\$ (467)</u>	<u>\$ (7,074)</u>	<u>\$ (5,060)</u>
Drilling Technologies and Production Technologies				
Income (loss) from discontinued operations, net of tax	<u>\$ 319</u>	<u>\$ (876)</u>	<u>\$ (13,621)</u>	<u>\$ (33,200)</u>

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

The assets and liabilities held for sale on the Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016 are as follows (in thousands):

	Drilling Technologies		Production Technologies	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Assets:				
Accounts receivable, net	\$ 1,749	\$ 5,072	\$ 201	\$ 1,784
Inventories	5	9,078	5	8,115
Other current assets	1,585	278	699	370
Long-term receivable	—	—	—	4,179
Property and equipment, net	—	11,277	—	3,978
Goodwill	—	15,333	—	1,689
Other intangible assets, net	—	7,395	—	484
Assets held for sale	3,339	48,433	905	20,599
Valuation allowance	(109)	(18,971)	—	(6,161)
Assets held for sale, net	<u>\$ 3,230</u>	<u>\$ 29,462</u>	<u>\$ 905</u>	<u>\$ 14,438</u>
Liabilities:				
Accounts payable	\$ 15	\$ 2,472	\$ 10	\$ 914
Accrued liabilities	1,419	1,190	142	385
Liabilities held for sale	<u>\$ 1,434</u>	<u>\$ 3,662</u>	<u>\$ 152</u>	<u>\$ 1,299</u>

Note 4 — Impairment of Inventory and Long-Lived Assets for Discontinued Operations

During the three months ended March 31, 2016, as a result of changes in the oil and gas industry that occurred since the beginning of 2016 and the corresponding impact on the Company's business outlook, the Company evaluated the direction of its business activities. Crude oil prices, which appeared to have stabilized during the fourth quarter of 2015, fell further during the first quarter of 2016, decreasing approximately 21% from average prices seen in the fourth quarter of 2015. The U.S. drilling rig count declined from 698 at December 31, 2015 to 450 at April 1, 2016, a decline of 35.5%.

Due to the decreased rig activity and its impact on management's expectations for future market activity, the Company further refocused operations of its Drilling Technologies segment. The Company decided to exit the business of building and repairing motors in all domestic markets. In addition, changes in drilling technique, including further escalation of the move to a dominance of pad drilling, reduced the marketability of certain other inventory items. The focus of the Production Technologies segment was shifted to its new technologies for electric submersible pumps for the oil and gas industry and for hydraulic pumping units. Inventory associated with older technologies for these items has been evaluated for impairment. As a result of these changes in focus and projected declines in asset utilization, the Company recorded a pre-tax impairment of inventories as noted below.

Changes in the business climate noted above and increasing operating losses experienced within the Drilling Technologies and Production Technologies segments during the three months ended March 31, 2016, caused the Company to test asset groups within these two segments for recoverability. Recoverability of the carrying value of the asset groups was based upon estimated future cash flows while taking into consideration various assumptions and estimates, including future use of the assets, remaining useful life of the assets, and eventual disposition of the assets. Undiscounted estimated cash flows of two asset groups associated with domestic operations in the Drilling Technologies segment did not exceed the carrying value of the respective asset groups. Therefore, the Company performed an analysis of discounted future cash flows to determine the fair value of each of these two asset groups. As a result of this testing, the Company recorded a pre-tax impairment of long-lived assets as noted below.

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The Company recorded impairment charges during the three months ended March 31, 2016, as follows (in thousands):

Drilling Technologies:	
Inventories	\$ 12,653
Long-lived assets:	
Property and equipment	14,642
Intangible assets other than goodwill	9,227
Production Technologies:	
Inventories	3,913
Total impairment	\$ 40,435

Based on the changes in the business climate discussed above and continuing operating losses experienced during the three months ended March 31, 2016, June 30, 2016, and September 30, 2016, goodwill within the Teledrift and Production Technologies reporting units was tested for impairment during these periods. However, no impairments of goodwill were recorded based upon this testing.

Note 5 — Acquisitions

On July 27, 2016, the Company acquired 100% of the stock and interests in International Polymerics, Inc. (“IPI”) and related entities for \$7.9 million in cash consideration, net of cash acquired, and 247,764 shares of the Company’s common stock. IPI is a U.S. based manufacturer of high viscosity guar gum and guar slurry for the oil and gas industry with a wide selection of stimulation chemicals.

Note 6 — Supplemental Cash Flow Information

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

	Nine months ended September 30,	
	2017	2016
Supplemental non-cash investing and financing activities:		
Value of common stock issued in acquisition	\$ —	\$ 3,268
Value of common stock issued in payment of accrued liability	188	—
Exercise of stock options by common stock surrender	5,863	50
Supplemental cash payment information:		
Interest paid	\$ 1,511	\$ 1,459
Income taxes received, net of payments (paid, net of refunds)	10,081	(1,663)

Note 7 — Revenue

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue:				
Products	\$ 77,956	\$ 62,562	\$ 240,306	\$ 187,122
Services	1,502	1,775	4,283	5,105
	<u>\$ 79,458</u>	<u>\$ 64,337</u>	<u>\$ 244,589</u>	<u>\$ 192,227</u>
Cost of revenue:				
Products	\$ 55,846	\$ 41,117	\$ 163,587	\$ 122,055
Services	1,345	354	3,802	950
Depreciation	527	512	1,627	1,357
	<u>\$ 57,718</u>	<u>\$ 41,983</u>	<u>\$ 169,016</u>	<u>\$ 124,362</u>

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Note 8 — Inventories

Inventories are as follows (in thousands):

	September 30, 2017	December 31, 2016
Raw materials	\$ 37,961	\$ 28,626
Work-in-process	3,042	2,918
Finished goods	29,713	26,739
Inventories	<u>\$ 70,716</u>	<u>\$ 58,283</u>

Note 9 — Property and Equipment

Property and equipment are as follows (in thousands):

	September 30, 2017	December 31, 2016
Land	\$ 6,748	\$ 5,837
Buildings and leasehold improvements	43,431	42,986
Machinery and equipment	38,862	36,187
Equipment in progress	5,475	3,235
Furniture and fixtures	2,029	1,969
Transportation equipment	2,307	3,059
Computer equipment and software	12,168	11,844
Property and equipment	111,020	105,117
Less accumulated depreciation	(37,309)	(30,426)
Property and equipment, net	<u>\$ 73,711</u>	<u>\$ 74,691</u>

Depreciation expense, including expense recorded in cost of revenue, totaled \$2.4 million and \$2.1 million for the three months ended September 30, 2017 and 2016, respectively, and \$7.0 million and \$5.3 million for the nine months ended September 30, 2017 and 2016, respectively.

During the three and nine months ended September 30, 2017 and 2016, no impairments were recognized related to property and equipment.

Note 10 — Goodwill

Changes in the carrying value of goodwill for each reporting unit are as follows (in thousands):

	Energy Chemistry Technologies	Consumer and Industrial Chemistry Technologies	Total
Balance at December 31, 2016	\$ 37,180	\$ 19,480	\$ 56,660
Goodwill impairment recognized	—	—	—
Balance at September 30, 2017	<u>\$ 37,180</u>	<u>\$ 19,480</u>	<u>\$ 56,660</u>

During the three and nine months ended September 30, 2017 and 2016, no impairments of goodwill were recognized.

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Note 11 — Other Intangible Assets

Other intangible assets are as follows (in thousands):

	September 30, 2017		December 31, 2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Finite-lived intangible assets:				
Patents and technology	\$ 17,236	\$ 5,323	\$ 16,815	\$ 4,537
Customer lists	30,877	7,745	30,877	6,518
Trademarks and brand names	1,544	1,105	1,467	1,069
Total finite-lived intangible assets acquired	49,657	14,173	49,159	12,124
Deferred financing costs	2,230	493	1,804	117
Total amortizable intangible assets	51,887	<u>\$ 14,666</u>	50,963	<u>\$ 12,241</u>
Indefinite-lived intangible assets:				
Trademarks and brand names	11,630		11,630	
Total other intangible assets	<u>\$ 63,517</u>		<u>\$ 62,593</u>	
Carrying value:				
Other intangible assets, net	<u>\$ 48,851</u>		<u>\$ 50,352</u>	

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 \$0.7 million and \$0.7 million for the three months ended September 30, 2017 and 2016, respectively, and \$2.0 million and \$2.1 million for the nine months ended September 30, 2017 and 2016, respectively.

Amortization of deferred financing costs was \$0.1 million and \$0.1 million for the three months ended September 30, 2017 and 2016, respectively, and \$0.4 million and \$0.3 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 12 — Long-Term Debt and Credit Facility

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

	September 30, 2017	December 31, 2016
Long-term debt:		
Borrowings under revolving credit facility	\$ 40,589	\$ 38,566
Term loan	—	9,833
Total long-term debt	40,589	48,399
Less current portion of long-term debt	(40,589)	(40,566)
Long-term debt, less current portion	<u>\$ —</u>	<u>\$ 7,833</u>

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 (the “Credit Facility”) with PNC Bank, National Association (“PNC Bank”). The Company may borrow under the Credit Facility for working capital, permitted acquisitions, capital expenditures and other corporate purposes. The Credit Facility, as amended, continues in effect until May 10, 2022. Under terms of the Credit Facility, as amended, the Company has total borrowing availability under a revolving credit facility of \$75 million.

The Credit Facility is secured by substantially all of the Company’s domestic real and personal property, including accounts receivable, inventory, land, buildings, equipment and other intangible assets. The Credit Facility contains customary representations, warranties, and both affirmative and negative covenants. The Company was in compliance with all debt covenants at September 30, 2017. In the event of default, PNC Bank may accelerate the maturity date of any outstanding amounts borrowed under the Credit Facility.

The Credit Facility contains financial covenants to maintain a fixed charge coverage ratio and a leverage ratio, as well as establishes an annual limit on capital expenditures. The fixed charge coverage ratio is the ratio of (a) earnings before interest, taxes, depreciation, and amortization (“EBITDA”), adjusted for non-cash stock-based compensation and the loss from discontinued operations, less

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cash paid for taxes during the period to (b) all debt payments during the period. The fixed charge coverage ratio requirement began for the quarter ended March 31, 2017 at 1.00 to 1.00 and increases to 1.10 to 1.00 for the year ending December 31, 2017, and for each fiscal quarter thereafter. The leverage ratio (funded debt to adjusted EBITDA) requirement began for the six months ended June 30, 2017, at not greater than 5.50 to 1.10 and reduces to not greater than 3.00 to 1.00 as of September 30, 2018, and for each fiscal quarter thereafter. The annual limit on capital expenditures for 2017 is \$20 million. The annual limit on capital expenditures for 2018 and each fiscal year thereafter is \$26 million. The annual limit on capital expenditures is reduced if the undrawn availability under the revolving credit facility falls below \$15 million at any month-end.

The Credit Facility restricts the payment of cash dividends on common stock and limits the amount that may be used to repurchase common stock and preferred stock.

Beginning with fiscal year 2017, the Credit Facility includes a provision that 25% of EBITDA minus cash paid for taxes, dividends, debt payments, and unfunded capital expenditures, not to exceed \$3.0 million for any year, be paid on the outstanding balance within 60 days of the fiscal year end.

Each of the Company's domestic subsidiaries is fully obligated for Credit Facility indebtedness as a borrower or as a guarantor.

(a) Revolving Credit Facility

Under the revolving credit facility, the Company may borrow up to \$75 million through May 10, 2022. This includes a sublimit of \$10 million that may be used for letters of credit. The revolving credit facility is secured by substantially all of the Company's domestic accounts receivable and inventory.

At September 30, 2017, eligible accounts receivable and inventory securing the revolving credit facility provided total borrowing capacity of \$74.9 million under the revolving credit facility. Available borrowing capacity, net of outstanding borrowings, was \$34.3 million at September 30, 2017.

The interest rate on advances under the revolving credit facility varies based on the fixed charge coverage ratio. Rates range (a) between PNC Bank's base lending rate plus 1.5% to 2.0% or (b) between the London Interbank Offered Rate (LIBOR) plus 2.5% to 3.0%. PNC Bank's base lending rate was 4.25% at September 30, 2017. The Company is required to pay a monthly facility fee of 0.25% per annum, on any unused amount under the commitment based on daily averages. At September 30, 2017, \$40.6 million was outstanding under the revolving credit facility, with \$2.6 million borrowed as base rate loans at an interest rate of 5.75% and \$38.0 million borrowed as LIBOR loans at an interest rate of 3.74%.

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

(b) Term Loan

The amount borrowed under the term loan was reset to \$10 million effective as of September 30, 2016. Monthly principal payments of \$0.2 million were required. On May 22, 2017, the Company repaid the outstanding balance of the term loan.

Note 13 — 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 nine months ended September 30, 2017 and 2016, since including them would have an anti-dilutive effect on loss per share due to the net loss incurred during the period. Securities convertible into shares of common stock that were not considered in the diluted loss per share calculations were 1.3 million restricted stock units for the three and nine months ended September 30, 2017, and 0.7 million stock options and 0.8 million restricted stock units for the three and nine months ended September 30, 2016.

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Basic and diluted earnings (loss) per common share are as follows (in thousands, except per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Loss from continuing operations	\$ (3,421)	\$ (1,870)	\$ (5,285)	\$ (2,011)
Income (loss) from discontinued operations, net of tax	319	(876)	(13,621)	(33,200)
Net loss - Basic and Diluted	\$ (3,102)	\$ (2,746)	\$ (18,906)	\$ (35,211)
Weighted average common shares outstanding - Basic	57,602	56,899	57,709	55,523
Assumed conversions:				
Incremental common shares from stock options	—	—	—	—
Incremental common shares from restricted stock units	—	—	—	—
Weighted average common shares outstanding - Diluted	57,602	56,899	57,709	55,523
Basic earnings (loss) per common share:				
Continuing operations	\$ (0.06)	\$ (0.03)	\$ (0.09)	\$ (0.04)
Discontinued operations, net of tax	0.01	(0.02)	(0.24)	(0.60)
Basic earnings (loss) per common share	\$ (0.05)	\$ (0.05)	\$ (0.33)	\$ (0.64)
Diluted earnings (loss) per common share:				
Continuing operations	\$ (0.06)	\$ (0.03)	\$ (0.09)	\$ (0.04)
Discontinued operations, net of tax	0.01	(0.02)	(0.24)	(0.60)
Diluted earnings (loss) per common share	\$ (0.05)	\$ (0.05)	\$ (0.33)	\$ (0.64)

Note 14 — 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 no cash equivalents at September 30, 2017 or December 31, 2016.

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

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Term loan	\$ —	\$ —	\$ 9,833	\$ 9,833
Borrowings under revolving credit facility	40,589	40,589	38,566	38,566

The carrying value of the term loan and borrowings under the revolving credit facility approximate their fair value because the interest rates are variable.

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Assets Measured at Fair Value on a Nonrecurring Basis

The Company's non-financial assets, including property and equipment, goodwill, and other intangible assets are measured at fair value on a non-recurring basis and are subject to fair value adjustment in certain circumstances. No impairments of any of these assets were recognized during the three and nine months ended September 30, 2017 and 2016.

Note 15 — 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
U.S. federal statutory tax rate	(35.0)%	(35.0)%	(35.0)%	(35.0)%
State income taxes, net of federal benefit	14.3	12.0	6.7	9.2
Non-U.S. income taxed at different rates	8.9	16.4	5.4	7.7
Reduction in tax benefit related to stock-based awards	15.8	—	14.1	—
Other	(3.5)	(26.9)	(3.6)	(22.0)
Effective income tax rate	0.5 %	(33.5)%	(12.4)%	(40.1)%

Fluctuations in effective tax rates have historically been impacted by permanent tax differences with no associated income tax impact, changes in state apportionment factors, including the effect on state deferred tax assets and liabilities, and non-U.S. income taxed at different rates. Changes in the effective tax rate during the three and nine months ended September 30, 2017, included the Company implementing ASU No. 2016-09 which requires accounting for excess tax benefits and tax deficiencies related to stock-based awards as discrete items in the period in which they occur.

In January 2017, the Internal Revenue Service notified the Company that it will examine the Company's federal tax returns for the year ended December 31, 2014. No adjustments have been asserted, and management believes that sustained adjustments, if any, would not have a material effect on the Company's financial position, results of operations, or liquidity.

Note 16 — 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 nine months ended September 30, 2017 is as follows:

Shares issued at December 31, 2016	59,684,669
Issued as restricted stock award grants	273,829
Issued upon exercise of stock options	663,288
Shares issued at September 30, 2017	60,621,786

Stock Repurchase Program

In November 2012, the Company's Board of Directors authorized the repurchase of up to \$25 million of the Company's common stock. Repurchases may be made in the open market or through privately negotiated transactions. During the three months ended September 30, 2017, the Company repurchased 630,000 shares of its outstanding common stock on the open market at a cost of \$3.7 million, inclusive of transaction costs, or an average price of \$5.85 per share. During the nine months ended September 30, 2017, the Company repurchased 680,000 shares of its outstanding common stock on the open market at a cost of \$4.2 million, inclusive of transaction costs, or an average price of \$6.14 per share. During the three and nine months ended September 30, 2016, the Company did not repurchase any shares of its outstanding common stock.

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 the open market or through privately negotiated transactions. Through September 30, 2017, the Company has not repurchased any of its common stock under this authorization.

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As of September 30, 2017, the Company has \$50.7 million remaining under its share repurchase programs. A covenant under the Company's Credit Facility limits the amount that may be used to repurchase the Company's common stock. As of September 30, 2017, this covenant limits additional share repurchases to \$10.7 million.

Note 17 — 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 two reportable segments: Energy Chemistry Technologies and Consumer and Industrial Chemistry Technologies.

- Energy Chemistry Technologies designs, develops, manufactures, packages, and markets specialty chemistries used in oil and natural gas well drilling, cementing, completion, and stimulation. In addition, the Company's chemistries are used in specialized enhanced and improved oil recovery markets. 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.
- Consumer and Industrial Chemistry Technologies designs, develops, and manufactures products that are sold to companies in the flavor and fragrance industry and the specialty chemical industry. These technologies are used by beverage and food companies, fragrance companies, and companies providing household and industrial cleaning products.

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 reportable segments.

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

For the three months ended September 30,	Energy Chemistry Technologies	Consumer and Industrial Chemistry Technologies	Corporate and Other	Total
2017				
Net revenue from external customers	\$ 61,167	\$ 18,291	\$ —	\$ 79,458
Gross profit	18,733	3,007	—	21,740
Income (loss) from operations	6,867	985	(10,955)	(3,103)
Depreciation and amortization	1,863	590	615	3,068
Capital expenditures	324	682	641	1,647
2016				
Net revenue from external customers	\$ 45,030	\$ 19,307	\$ —	\$ 64,337
Gross profit	18,180	4,174	—	22,354
Income (loss) from operations	6,196	2,433	(10,882)	(2,253)
Depreciation and amortization	1,582	567	581	2,730
Capital expenditures	2,005	148	227	2,380

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For the nine months ended September 30,	Energy Chemistry Technologies	Consumer and Industrial Chemistry Technologies	Corporate and Other	Total
2017				
Net revenue from external customers	\$ 187,807	\$ 56,782	\$ —	\$ 244,589
Gross profit	63,840	11,733	—	75,573
Income (loss) from operations	24,715	5,906	(35,598)	(4,977)
Depreciation and amortization	5,507	1,752	1,832	9,091
Capital expenditures	2,794	1,580	1,781	6,155
2016				
Net revenue from external customers	\$ 133,094	\$ 59,133	\$ —	\$ 192,227
Gross profit	54,609	13,256	—	67,865
Income (loss) from operations	21,793	8,508	(32,031)	(1,730)
Depreciation and amortization	4,062	1,685	1,633	7,380
Capital expenditures	8,704	494	1,420	10,618

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

	September 30, 2017	December 31, 2016
Energy Chemistry Technologies	\$ 187,623	\$ 184,328
Consumer and Industrial Chemistry Technologies	113,434	98,105
Corporate and Other	44,551	56,882
Total segments	345,608	339,315
Held for sale	4,135	43,900
Total assets	\$ 349,743	\$ 383,215

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. Revenue by geographic location is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
U.S.	\$ 66,638	\$ 52,545	\$ 203,123	\$ 154,532
Other countries	12,820	11,792	41,466	37,695
Total	\$ 79,458	\$ 64,337	\$ 244,589	\$ 192,227

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

Major Customers

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Customer A	13.3%	12.5%	12.9%	17.9%
Customer B	8.8%	14.8%	9.6%	13.5%

Over 90% of the revenue from these customers was for sales in the Energy Chemistry Technologies segment.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 18 — 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.

In January 2016, three derivative lawsuits were filed, two in the District Court of Harris County, Texas (which have since been consolidated into one case) and one in the United States District Court for the Southern District of Texas, on behalf of the Company against certain of its officers and its current directors. The lawsuits allege violations of law, breaches of fiduciary duty, and unjust enrichment against the defendants.

The Company believes the lawsuits are without merit and intends to vigorously defend against all claims asserted. Discovery has not yet commenced. At this time, the Company is unable to reasonably estimate the outcome of this litigation.

In addition, as previously disclosed, the U.S. Securities and Exchange Commission had opened an inquiry related to similar issues to those raised in the above-described litigation. On August 21, 2017, the Company received a letter from the staff of the SEC stating that the inquiry has been concluded and that the staff does not intend to recommend an enforcement action against the Company.

Other Litigation

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

Concentrations and Credit Risk

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

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

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, 2016 ("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 2016, the Company classified the Drilling Technologies and Production Technologies segments as held for sale based on management's intention to sell these businesses. The Company's historical financial statements have been revised to present the operating results of the Drilling Technologies and Production Technologies segments as discontinued operations. The results of operations of Drilling Technologies and Production Technologies are presented as "Loss from discontinued operations" in the statement of operations and the related cash flows of these segments has been reclassified to discontinued operations for all periods presented. The assets and liabilities of the Drilling Technologies and Production Technologies segments have been reclassified to "Assets held for sale" and "Liabilities held for sale", respectively, in the consolidated balance sheets for all periods presented.

By the end of August 2017, the Company completed the sale of substantially all of the assets and transfer of certain specified liabilities and obligations of each of the Drilling Technologies and Production Technologies segments.

Executive Summary

Flotek is a global, diversified, technology-driven company that develops and supplies chemistries and services to the oil and gas industries, and 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 20 domestic and international markets.

The Company's oilfield business includes specialty chemistries and logistics. Flotek's technologies enable its customers in pursuing 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. The Company also produces non-energy-related citrus oil and related products 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. The Company sources citrus oil domestically and internationally and is one of the largest processors of citrus oil in the world. Additionally, the Company also provides automated bulk material handling, loading facilities, and blending capabilities.

Continuing Operations

The operations of the Company are categorized into two reportable segments: Energy Chemistry Technologies (“ECT”) and Consumer and Industrial Chemistry Technologies (“CICT”).

- Energy Chemistry Technologies designs, develops, manufactures, packages, and markets specialty chemistries used in O&G well drilling, cementing, completion, and stimulation. These technologies developed by Flotek’s Research and Innovation team enable customers to pursue improved efficiencies in the drilling and completion of wells.
- Consumer and Industrial Chemistry Technologies designs, develops, and manufactures 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.

Discontinued Operations

The Drilling Technologies and Production Technologies segments are classified as discontinued operations.

- Drilling Technologies assembles, rents, sells, inspects, and markets downhole drilling equipment used in energy, mining, and industrial drilling activities.
- Production Technologies assembles and markets production-related equipment, including pumping system components, electric submersible pumps (“ESP”), gas separators, valves, and services that support natural gas and oil production activities.

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 and guar, can be influenced by:

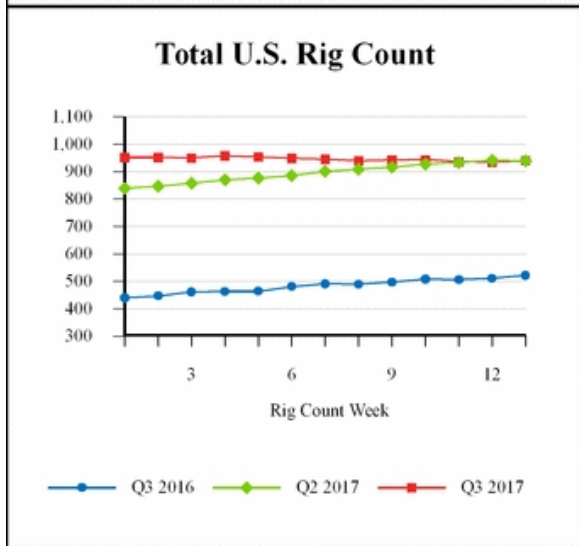
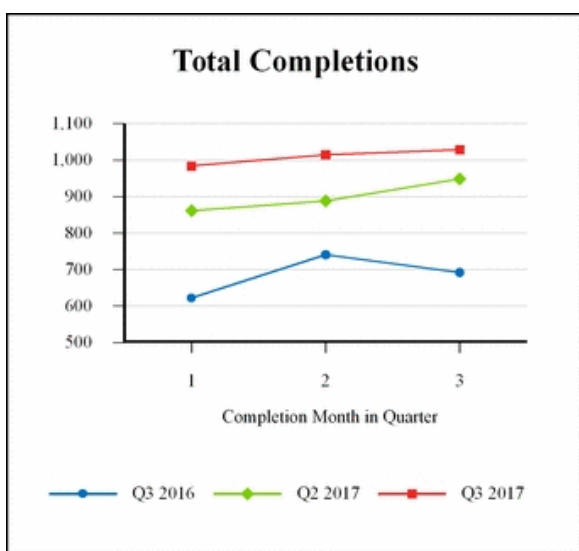
- Historical, current, and anticipated future production levels of the global citrus (primarily orange) and guar crops,
- Weather related risks,
- Health and condition of citrus trees and guar plants (e.g., disease and pests), and
- International competition and pricing pressures resulting from natural 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 September 30,			Nine months ended September 30,		
	2017	2016	% Change	2017	2016	% Change
<i>Average North American Active Drilling Rigs</i>						
U.S.	946	479	97.5%	861	482	78.6%
Canada	208	121	71.9%	207	112	84.8%
Total	1,154	600	92.3%	1,068	594	79.8%
<i>Average U.S. Active Drilling Rigs by Type</i>						
Vertical	70	62	12.9%	72	58	24.1%
Horizontal	799	372	114.8%	720	376	91.5%
Directional	77	45	71.1%	69	48	43.8%
Total	946	479	97.5%	861	482	78.6%
<i>Average North American Drilling Rigs by Product</i>						
Oil	874	452	93.4%	800	440	81.8%
Natural Gas	280	148	89.2%	268	154	74.0%
Total	1,154	600	92.3%	1,068	594	79.8%



Source: Rig counts are per Baker Hughes, Inc. (www.bakerhughes.com). Rig counts are the averages of the weekly rig count activity. Completions are per the U.S. Energy Information Administration (<https://www.eia.gov/petroleum/drilling/>) as of October 16, 2017.

Average U.S. rig activity increased by 97.5% and 78.6% for the three and nine months ended September 30, 2017, respectively, when compared to the same periods of 2016, and sequentially, increased by 5.7% when compared to the second quarter of 2017.

According to data collected by the U.S. Energy Information Administration (“EIA”) as reported on October 16, 2017, completions in the seven most prolific areas in the lower 48 states increased 47.3% and 37.0% for the three and nine months ended September 30, 2017, when compared to the same periods of 2016. Sequentially, completions increased 12.2% when compared to the second quarter of 2017.

Company Outlook

After a continuous decline in U.S. drilling rig activity beginning in mid-2014, the market began to gradually recover in the second quarter of 2016. Although a continuing recovery appears to be underway, the level of drilling and completion activity is still depressed compared to historical levels. Assuming the price for crude oil remains relatively stable and regulatory impediments are reduced, the Company expects U.S. oilfield activity to remain dependent on commodity prices.

During the third quarter of 2017, the Company continued to promote the efficacy of its Complex nano-Fluid® (“CnF®”) chemistries resulting in a 23.1% increase in CnF® sales volumes compared to the third quarter of 2016. Third quarter 2017 CnF® volumes decreased 12.9% compared to the second quarter of 2017. Although quarter to quarter performance may vary, the Company expects its Energy Chemistry Technologies sales to outperform market activity metrics over time by continuing to demonstrate the efficacy of its CnF® chemistries through comparative analysis of wells with and without CnF® chemistries, field validation results conducted by E&P companies, and the continuation of its direct-to-operator sales program known as the Flotek Store®. Whether operators purchase directly from Flotek or continue to purchase from oilfield distribution and service companies, E&P operators are benefiting from increased transparency in pricing and a more direct relationship with Flotek’s technical expertise and supply chain.

The Company’s success in promoting its patented and proprietary chemistries is supported through its industry leading research and innovation staff who provide customer responsive product innovation, as well as development of new products which are expected to expand the Company’s future product lines. During the third quarter of 2016, the Company completed its new Global Research & Innovation Center in Houston. This state-of-the-art facility allows for the development of next-generation innovative energy chemistries, as well as expanded collaboration between clients, leaders from academia, and Company scientists. These collaborative opportunities are an important and distinguishing capability within the industry.

The outlook for the Company’s consumer and industrial chemistries will be driven by the availability and demand for citrus oils, industrial solvents, and flavor and fragrance ingredients. Although current inventory and crop expectations are sufficient to meet the Company’s needs to supply its flavor and fragrance business, as well as both internal and external industrial markets, the market supply of citrus oils has declined in recent years due to the reduction in citrus crops caused by the citrus greening disease. This reduced supply has resulted in higher citrus oil prices and increased price volatility. However, the Company expects its strong market position to enable it to maintain a stable supply of citrus oils for internal use and external sales. The Company expects to manage the impact of volatile terpene costs through the development of new product formulations and pricing strategies.

During the fourth quarter 2016, the Company implemented a strategic restructuring of its business to enable a greater focus on its core businesses in energy chemistry and consumer and industrial chemistry and initiated a process to identify potential buyers for its Drilling Technologies and Production Technologies segments. By the end of August 2017, the Company completed the sale of substantially all of the assets and transfer of certain specified liabilities and obligations of the Drilling Technologies and Production Technologies segments.

Capital expenditures for continuing operations totaled \$6.2 million and \$10.6 million for the nine months ended September 30, 2017 and 2016, respectively. The Company expects capital spending to be between \$9 million and \$11 million in 2017, but anticipates to be towards the lower end of the range. The Company will remain nimble in its core capital expenditure plans, adjusting as market conditions warrant.

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, 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 access to 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 79,458	\$ 64,337	\$ 244,589	\$ 192,227
Cost of revenue	57,718	41,983	169,016	124,362
Gross profit	21,740	22,354	75,573	67,865
Gross margin %	27.4 %	34.7 %	30.9 %	35.3 %
Corporate general and administrative	10,346	10,302	33,773	30,398
Corporate general and administrative %	13.0 %	16.0 %	13.8 %	15.8 %
Segment selling and administrative	9,277	9,775	28,972	26,879
Segment selling and administrative %	11.7 %	15.2 %	11.8 %	14.0 %
Depreciation and amortization	2,540	2,217	7,464	6,024
Research and innovation costs	2,691	2,327	9,940	6,323
(Gain) loss on disposal of long-lived assets	(11)	(14)	401	(29)
Loss from operations	(3,103)	(2,253)	(4,977)	(1,730)
Operating margin %	(3.9)%	(3.5)%	(2.0)%	(0.9)%
Interest and other expense, net	(301)	(559)	(1,054)	(1,630)
Loss before income taxes	(3,404)	(2,812)	(6,031)	(3,360)
Income tax (expense) benefit	(17)	942	746	1,349
Loss from continuing operations	(3,421)	(1,870)	(5,285)	(2,011)
Income (loss) from discontinued operations, net of tax	319	(876)	(13,621)	(33,200)
Net loss	\$ (3,102)	\$ (2,746)	\$ (18,906)	\$ (35,211)

Consolidated Results of Operations: Three and Nine Months Ended September 30, 2017, Compared to the Three and Nine Months Ended September 30, 2016

Consolidated revenue for the three and nine months ended September 30, 2017, increased \$15.1 million, or 23.5%, and \$52.4 million, or 27.2%, respectively, versus the same periods of 2016. These increases in revenue were driven by increased sales within the Energy Chemistry Technologies segment due to the increased oilfield activity beginning in the latter half of 2016.

Consolidated gross profit for the three and nine months ended September 30, 2017, decreased \$0.6 million, or 2.7%, and increased \$7.7 million, or 11.4%, respectively, compared to the same periods of 2016. Gross margin decreased to 27.4% and 30.9% for the three and nine months ended September 30, 2017, respectively, from 34.7% and 35.3% in the same periods of 2016, primarily due to increased volumes of lower margin product sales in all segments.

Corporate general and administrative (“CG&A”) expenses are not directly attributable to products sold or services provided. CG&A costs remained relatively flat for the three months ended September 30, 2017, and increased \$3.4 million, or 11.1%, for the nine months ended September 30, 2017, versus the same periods of 2016. As a percentage of revenue, CG&A decreased 3.0% and 2.0% for the three and nine months ended September 30, 2017, respectively. The increase in CG&A costs was primarily due to costs associated with executive retirement, stock compensation expense, and information technology costs, partially offset by decreased legal expenses.

Segment selling and administrative (“SS&A”) expenses are not directly attributable to products sold or services provided. SS&A costs remained relatively flat for the three months ended September 30, 2017, and increased \$2.1 million, or 7.8%, for the nine months ended September 30, 2017, versus the same periods of 2016. As a percentage of revenue, SS&A decreased 3.5% and 2.2% for the three and nine months ended September 30, 2017, respectively. The increase in SS&A costs was primarily due to increased headcount in the Energy Chemistry Technologies and Consumer and Industrial Chemistry Technologies sales and support staff for expansion and growth in new business and related higher sales and marketing expenses.

Depreciation and amortization expense increased \$0.3 million, or 14.6%, and \$1.4 million, or 23.9%, for the three and nine months ended September 30, 2017, respectively, versus the same periods of 2016, primarily attributable to the completion and equipping of the Global Research & Innovation Center in August 2016, along with other improvements to manufacturing facilities.

Research and Innovation (“R&I”) expense increased \$0.4 million, or 15.6%, and \$3.6 million, or 57.2%, for the three and nine months ended September 30, 2017, respectively, compared to the same periods of 2016. These increases in R&I are primarily attributable to increased personnel for new product development and Flotek’s commitment to remaining responsive to customer needs, increased demand, continued growth and refining of existing product lines, and the development of new chemistries which are expected to expand the Company’s intellectual property portfolio.

Interest and other expense decreased \$0.3 million, or 46.2%, and \$0.6 million, or 35.3%, for the three and nine months ended September 30, 2017, respectively, versus the same periods of 2016, primarily due to the repayment of the term loan in May 2017.

The Company recorded an income tax provision of less than \$0.1 million, yielding an effective tax rate of (0.5)%, and an income tax benefit of \$0.7 million, yielding an effective tax benefit rate of 12.4%, for the three and nine months ended September 30, 2017, respectively, compared to income tax benefits of \$0.9 million and \$1.3 million, yielding effective tax benefit rates of 33.5% and 40.1%, for the comparable periods in 2016.

As part of the Company’s strategic restructuring of its business to enable a greater focus on its core businesses in energy chemistry and consumer and industrial chemistry, the Company completed the sale of substantially all of the assets and transfer of certain specified liabilities and obligations of the Drilling Technologies and Production Technologies segments through August 2017. The Company recorded a net gain from discontinued operations of \$0.3 million for the three months ended September 30, 2017, and a net loss from discontinued operations of \$13.6 million for the nine months ended September 30, 2017.

Results by Segment

Energy Chemistry Technologies (“ECT”)

(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 61,167	\$ 45,030	\$ 187,807	\$ 133,094
Gross profit	18,733	18,180	63,840	54,609
Gross margin %	30.6%	40.4%	34.0%	41.0%
Income from operations	6,867	6,196	24,715	21,793
Operating margin %	11.2%	13.8%	13.2%	16.4%

ECT Results of Operations: Three and Nine Months Ended September 30, 2017, Compared to the Three and Nine Months Ended September 30, 2016

ECT revenue for the three and nine months ended September 30, 2017, increased \$16.1 million, or 35.8%, and \$54.7 million, or 41.1%, respectively, versus the same periods of 2016. CnF® sales revenues increased 28.7% (volumes increased 23.1%), compared to the three months ended September 30, 2016. Increased well completion activity by customers lead to the increased CnF® chemistry sales during the third quarter of 2017. Quarterly non-CnF revenues rose approximately 49.8%, compared to the three months ended September 30, 2016, due to increased customer demand as a result of oilfield market conditions.

Sequentially, revenues decreased \$4.7 million, or 7.1%, versus the second quarter of 2017. CnF® sales revenues decreased 11.2% (volumes decreased 12.9%) on a sequential basis. Impacts related to Hurricane Harvey and certain customer delays affected the quarter.

ECT gross profit increased \$0.6 million, or 3.0%, and \$9.2 million, or 16.9%, for the three and nine months ended September 30, 2017, respectively, versus the same periods of 2016. Gross margin decreased to 30.6% and 34.0% for the three and nine months ended September 30, 2017, respectively, from 40.4% and 41.0% in the same periods of 2016. The gross margin decreases over the periods were primarily due to product mix and higher raw material costs. Sequentially, gross profit decreased \$4.1 million, or 17.9%, versus the second quarter of 2017.

Income from operations for the ECT segment increased \$0.7 million, or 10.8%, and \$2.9 million, or 13.4%, for the three and nine months ended September 30, 2017, respectively, versus the same periods of 2016. These increases were primarily attributable to the increase in CnF® sales.

Consumer and Industrial Chemistry Technologies (“CICT”)

(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 18,291	\$ 19,307	\$ 56,782	\$ 59,133
Gross profit	3,007	4,174	11,733	13,256
Gross margin %	16.4%	21.6%	20.7%	22.4%
Income from operations	985	2,433	5,906	8,508
Operating margin %	5.4%	12.6%	10.4%	14.4%

CICT Results of Operations: Three and Nine Months Ended September 30, 2017, Compared to the Three and Nine Months Ended September 30, 2016

CICT revenue decreased \$1.0 million, or 5.3%, and \$2.4 million, or 4.0%, for the three and nine months ended September 30, 2017, respectively, versus the same periods of 2016. These decreases were due to reduced volumes, partially offset by higher prices. Sequentially, quarterly revenues decreased \$1.0 million, or 5.2%, versus the second quarter of 2017 due to reduced volumes.

CICT gross profit for the three and nine months ended September 30, 2017, decreased \$1.2 million, or 28.0%, and \$1.5 million, or 11.5%, respectively, versus the same periods of 2016. Gross margin decreased to 16.4% and 20.7% for the three and nine months ended September 30, 2017, respectively, from 21.6% and 22.4% in the same periods of 2016. These decreases were a result of lower margins caused by higher material costs and product mix. Sequentially, gross profits decreased by \$0.3 million, and gross margins decreased to 16.4% from 17.0% in the second quarter of 2017 due to product mix and increased raw material costs.

Income from operations for the CICT segment decreased \$1.4 million, or 59.5%, and \$2.6 million, or 30.6%, for the three and nine months ended September 30, 2017, respectively, versus the same periods of 2016. Sequentially, quarterly operating profits decreased by \$0.2 million. These decreases are primarily attributable to product mix and increased raw material and indirect costs.

Discontinued Operations

During the fourth quarter of 2016, the Company classified the Drilling Technologies and Production Technologies segments as held for sale based on management’s intention to sell these businesses. By the end of August 2017, the Company completed the sale of substantially all of the assets and transfer of certain specified liabilities and obligations of the Drilling Technologies and Production Technologies segments. The Company’s historical financial statements have been revised to present the operating results of the Drilling Technologies and Production Technologies segments as discontinued operations. The information below is presented for informational purposes only.

Drilling Technologies

(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	\$ —	\$ 7,197	\$ 11,534	\$ 20,026
Gross profit (loss)	—	2,907	4,275	6,150
Gross margin %	—%	40.4 %	37.1 %	30.7 %
Loss from operations	(755)	(924)	(2,196)	(43,493)
Loss from operations - excluding impairment	(755)	(924)	(2,196)	(6,971)
Operating margin % - excluding impairment	—%	(12.8)%	(19.0)%	(34.8)%

Production Technologies

(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	\$ —	\$ 2,145	\$ 4,002	\$ 6,034
Gross profit (loss)	—	105	813	201
Gross margin %	—%	4.9 %	20.3 %	3.3 %
Loss from operations	(64)	(1,118)	(1,290)	(7,810)
Loss from operations - excluding impairment	(64)	(1,118)	(1,290)	(3,897)
Operating margin % - excluding impairment	—%	(52.1)%	(32.2)%	(64.6)%

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 September 30, 2017, 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 Conditions 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 nine months ended September 30, 2017.

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 service debt, acquire and maintain equipment, fund working capital requirements, and when the opportunities arise, to make strategic acquisitions and repurchase Company stock. During the first nine months of 2017, the Company funded capital requirements primarily with cash on hand and debt financing.

The Company’s primary source of debt financing is its Credit Facility with PNC Bank. This Credit Facility contains provisions for a revolving credit facility secured by substantially all of the Company’s domestic real and personal property, including accounts receivable, inventory, land, buildings, equipment, and other intangible assets. As of September 30, 2017, the Company had \$40.6 million in outstanding borrowings under the revolving debt portion of the Credit Facility. At September 30, 2017, the Company

was in compliance with all debt covenants. Significant terms of the Credit Facility are discussed in Note 12 — “Long-Term Debt and Credit Facility” in Part I, Item 1 — “Financial Statements” of this Quarterly Report.

The Company believes it has access to adequate liquidity to fund its ongoing operations and capital expenditures. As of September 30, 2017, the Company had available borrowing capacity under its revolving line of credit of \$34.3 million and available cash of \$4.9 million, resulting in total liquidity of \$39.2 million. For the remainder of 2017, the Company plans to spend between \$2.8 million and \$4.8 million for committed and planned capital expenditures. The Company may pursue external financing to increase its liquidity position and/or fund acquisitions when strategic opportunities arise.

Any excess cash generated may be used to pay down the level of debt or retained for future use.

Net Debt

Net debt represents total debt less cash and cash equivalents and combines the Company’s indebtedness and the cash and cash equivalents that could be used to repay that debt. Components of net debt are as follows (in thousands):

	September 30, 2017	September 30, 2016
Cash and cash equivalents	\$ 4,942	\$ 3,474
Current portion of long-term debt	(40,589)	(34,562)
Long-term debt, less current portion	—	(8,000)
Net debt	<u>\$ (35,647)</u>	<u>\$ (39,088)</u>

Cash Flows

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

	Nine months ended September 30,	
	2017	2016
Net cash provided by (used in) operating activities	\$ 1,178	\$ (825)
Net cash provided by (used in) investing activities	11,839	(18,754)
Net cash (used in) provided by financing activities	(13,039)	20,805
Net cash flows provided by (used in) discontinued operations	13	(8)
Effect of changes in exchange rates on cash and cash equivalents	128	48
Net increase in cash and cash equivalents	<u>\$ 119</u>	<u>\$ 1,266</u>

Operating Activities

Net cash provided by (used in) operating activities was \$1.2 million and \$(0.8) million during the nine months ended September 30, 2017 and 2016, respectively. Consolidated net loss for the nine months ended September 30, 2017 and 2016, totaled \$5.3 million and \$2.0 million, respectively.

During the nine months ended September 30, 2017, net non-cash contributions to net income totaled \$12.2 million. Contributory non-cash items consisted primarily of \$9.5 million for depreciation and amortization, \$9.7 million for stock-based compensation expense, \$0.9 million for recognized incremental tax benefits related to the Company’s share based awards, and \$0.4 million for net loss on sale of assets, partially offset by \$8.3 million for changes to deferred income taxes.

During the nine months ended September 30, 2016, net non-cash contributions to net income totaled \$10.8 million. Contributory non-cash items consisted primarily of \$7.7 million for depreciation and amortization, \$8.6 million for stock compensation expense, and \$0.9 million for recognized incremental tax benefits related to the Company’s share based awards, partially offset by \$6.3 million for changes to deferred income taxes.

During the nine months ended September 30, 2017, changes in working capital used \$5.7 million in cash, primarily resulting from increasing accounts receivable and inventory by \$20.9 million and decreasing accounts payable by \$8.3 million, partially offset by decreasing income taxes receivable and other current assets by \$21.9 million and increasing accrued liabilities and interest payable by \$1.6 million.

During the nine months ended September 30, 2016, changes in working capital used \$9.6 million in cash, primarily resulting from increasing accounts receivable, inventory, income taxes receivable, and other current assets by \$24.3 million and decreasing income taxes payable by \$1.8 million, partially offset by increasing accounts payable, accrued liabilities, and interest payable by \$16.4 million.

Investing Activities

Net cash provided by investing activities was \$11.8 million for the nine months ended September 30, 2017. Cash provided by investing activities primarily included \$18.5 million of proceeds received from the sale of the Drilling Technologies and Production Technologies segments and \$0.3 million of proceeds received from the sale of fixed assets, partially offset by \$6.2 million for capital expenditures and \$0.8 million for the purchase of various patents and other intangible assets.

Net cash used in investing activities was \$18.8 million for the nine months ended September 30, 2016. Cash used in investing activities primarily included \$10.6 million for capital expenditures and \$8.2 million for the purchase of IPI and various patents.

Financing Activities

Net cash used in financing activities was \$13.0 million for the nine months ended September 30, 2017, primarily due to using \$7.8 million for repayments of debt, net of borrowings, purchases of treasury stock for tax withholding purposes related to vesting of restricted stock awards of \$1.5 million, and \$4.2 million for the repurchase of common stock. Cash used in financing activities was partially offset by \$0.5 million in proceeds from the sale of common stock.

Net cash generated through financing activities was \$20.8 million for the nine months ended September 30, 2016, primarily due to receiving \$30.6 million in proceeds from the sale of common stock, inclusive of \$29.9 million, net of issuance costs, from the private placement of 2.5 million common shares on July 27, 2016. Cash generated through financing activities was partially offset by using \$8.0 million for repayments of debt, net of borrowings, reductions in tax benefit related to stock-based compensation of \$0.9 million, and purchases of treasury stock for tax withholding purposes related to vesting of restricted stock awards and the exercise of non-qualified stock options of \$0.9 million.

On August 1, 2017, the Company filed a registration statement on Form S-3 (the "Universal Shelf") with the SEC to register for sale from time to time up to \$350 million of common stock, preferred stock, senior and subordinated debt securities, warrants, units and guarantees. The Universal Shelf was declared effective by the SEC on October 11, 2017 and will remain effective for three years. Although the Company has no current plans to issue any securities under the Universal Shelf, it will remain available for use by the Company, subject to market conditions, to quickly access the capital markets should the need arise.

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 repayment of amounts borrowed on the Company's Credit Facility with PNC Bank and payment of operating lease obligations. Contractual obligations at September 30, 2017, are as follows (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Borrowings under revolving credit facility ⁽¹⁾	\$ 40,589	\$ 40,589	\$ —	\$ —	\$ —
Operating lease obligations	22,415	2,679	4,762	3,966	11,008
Total	\$ 63,004	\$ 43,268	\$ 4,762	\$ 3,966	\$ 11,008

(1) The borrowing is classified as current debt. The weighted-average interest rate is 3.86% at September 30, 2017.

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 September 30, 2017, 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 September 30, 2017.

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 September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Class Action Litigation

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

In January 2016, three derivative lawsuits were filed, two in the District Court of Harris County, Texas (which have since been consolidated into one case) and one in the United States District Court for the Southern District of Texas, on behalf of the Company against certain of its officers and its current directors. The lawsuits allege violations of law, breaches of fiduciary duty, and unjust enrichment against the defendants.

The Company believes the lawsuits are without merit and intends to vigorously defend against all claims asserted. Discovery has not yet commenced. At this time, the Company is unable to reasonably estimate the outcome of this litigation.

In addition, as previously disclosed, the U.S. Securities and Exchange Commission had opened an inquiry related to similar issues to those raised in the above-described litigation. On August 21, 2017, the Company received a letter from the staff of the SEC stating that the inquiry has been concluded and that the staff does not intend to recommend an enforcement action against the Company.

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

There have been no material changes to the risk factors set forth in Part I, Item 1A of the Company's Annual Report.

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 September 30, 2017, 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) (3) (4)
July 1, 2017 to July 31, 2017	1,880	\$ 8.94	—	\$ 54,420,042
August 1, 2017 to August 31, 2017	377,203	\$ 6.07	350,000	\$ 52,288,702
September 1, 2017 to September 30, 2017	286,009	\$ 5.55	280,000	\$ 50,733,939
Total	665,092	\$ 5.85	630,000	

(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 November 2012, the Company's Board of Directors authorized the repurchase of up to \$25 million of the Company's common stock. Repurchases may be made in open market or privately negotiated transactions. Through September 30, 2017, the Company has repurchased \$24.3 million of its common stock and \$0.7 million may yet be used to purchase shares.

(3) 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 September 30, 2017, the Company has not repurchased any of its common stock under this authorization and \$50.0 million may yet be used to purchase shares.

(4) A covenant under the Company's Credit Facility limits the amount that may be used to repurchase the Company's common stock. At September 30, 2017, this covenant limits additional share repurchases to \$10.7 million.

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
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	Amended and Restated Bylaws, dated December 9, 2014 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on December 10, 2014).
3.4	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	* Eighth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated effective as of June 7, 2017.
10.2	* Ninth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated effective as of July 1, 2017.
10.3	Tenth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated effective as of September 29, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 3, 2017).
10.4	* Employment Agreement, dated effective April 1, 2016, between the Company and Robert Bodnar.
10.5	* Confidential Severance and Release Agreement, dated effective October 12, 2017, between the Company and Robert Bodnar.
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.
+	Filed electronically with this Form 10-Q.

SIGNATURES

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

FLOTEK INDUSTRIES, INC.

By: /s/ JOHN W. CHISHOLM
John W. Chisholm
President, Chief Executive
Officer and
Chairman of the Board

Date: November 8, 2017

FLOTEK INDUSTRIES, INC.

By: /s/ H. RICHARD WALTON
H. Richard Walton
Executive Vice President and
Chief Financial Officer

Date: November 8, 2017

**EIGHTH AMENDMENT TO AMENDED AND RESTATED
REVOLVING CREDIT, TERM LOAN AND SECURITY AGREEMENT**

THIS EIGHTH AMENDMENT TO AMENDED AND RESTATED REVOLVING CREDIT, TERM LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into effective June 7, 2017 (the "Effective Date"), by and among FLOTEK INDUSTRIES, INC., a corporation organized under the laws of the State of Delaware ("Holdings"), FLOTEK CHEMISTRY, LLC, a limited liability company organized under the laws of the State of Oklahoma ("Flotek Chemistry"), CESI MANUFACTURING, LLC, a limited liability company organized under the laws of the State of Oklahoma ("CESI Manufacturing"), MATERIAL TRANSLOGISTICS, INC., a corporation organized under the laws of the State of Texas ("MTI"), TELEDRIFT COMPANY, a corporation organized under the laws of the State of Delaware ("Teledrift"), TURBECO, INC., a corporation organized under the laws of the State of Texas ("Turbeco"), USA PETROVALVE, INC., a corporation organized under the laws of the State of Texas ("USA Petrovalve"), FLORIDA CHEMICAL COMPANY, INC., a corporation organized under the laws of the State of Delaware ("Florida Chemical"), SITELARK LLC, a limited liability company organized under the laws of the State of Texas ("Sitelark"), FLOTEK ECUADOR MANAGEMENT LLC, a limited liability company organized under the laws of the State of Texas ("Ecuador Management"), FLOTEK ECUADOR INVESTMENTS LLC, a limited liability company organized under the laws of the State of Texas ("Ecuador Investments"), FLOTEK EXPORT, INC., a corporation organized under the laws of the State of Texas ("Export"), ECLIPSE IOR SERVICES, LLC, a limited liability company organized under the laws of the State of Texas ("EOGA"), FRACMAX ANALYTICS, LLC, a limited liability company organized under the laws of the State of Texas ("Fracmax"), FC PRO, LLC, a limited liability company organized under the laws of the State of Delaware ("FC PRO"), FLOTEK HYDRALIFT, INC., a corporation organized under the laws of the State of Texas ("Hydralift"; and together with Holdings, Flotek Chemistry, CESI Manufacturing, MTI, Teledrift, Turbeco, USA Petrovalve, Florida Chemical, Sitelark, Ecuador Management, Ecuador Investments, Export, EOGA, Fracmax and FC PRO, collectively, the "Borrowers" and each individually, a "Borrower"), the financial institutions which are now or which hereafter become a party thereto (collectively, the "Lenders" and each individually a "Lender"), and PNC BANK, NATIONAL ASSOCIATION ("PNC"), as a Lender and as agent for Lenders (in such capacity, "Agent").

PRELIMINARY STATEMENTS

Borrowers, Lenders and Agent are parties to that certain Amended and Restated Revolving Credit, Term Loan and Security Agreement dated May 10, 2013, as amended by that certain First Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of December 31, 2013, that certain Second Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of December 5, 2014, that certain Third Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of June 19, 2015, that certain Fourth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of July 21, 2015, that certain Fifth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of March

31, 2016, that certain Sixth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of November 2, 2016 and that certain Seventh Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement and Sixth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, effective as of March 31, 2017 (as it may be further amended, restated, supplemented, or otherwise modified from time to time, the “Credit Agreement”); and

B. Borrowers have requested that Agent and the Lenders make certain amendments to the Credit Agreement; and

C. Subject to the terms and conditions set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent and the Lenders are willing to make certain amendments to the Credit Agreement, all as set forth herein.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, agree as follows:

ARTICLE I DEFINITIONS

1.01 Capitalized terms used in this Amendment are defined in the Credit Agreement, as amended hereby, unless otherwise stated.

ARTICLE II AMENDMENT

2.01 Amendment to Section 1.2 – Amended Definitions. Effective as of the Effective Date, the definition of “Permitted Loans” set forth in Section 1.2 is hereby deleted in its entirety and replaced with the following:

“Permitted Loans” shall mean: (a) the extension of trade credit by a Borrower to its Customer(s), in the Ordinary Course of Business in connection with a sale of Inventory or rendition of services, in each case on open account terms; (b) loans to employees in the Ordinary Course of Business not to exceed as to all such loans the aggregate amount of \$100,000 at any time outstanding; (c) loans to Flotek Industries Holding Limited, Flotek Industries UK Limited, Flotek Technologies ULC, Flotek Chemical Ecuador CIA LTDA, Petrovalve International, Inc. or Flotek Industries, FZE (x) up to a maximum aggregate amount of \$10,000,000 during 2015, and (y) thereafter, in an aggregate amount not to exceed \$5,000,000 in any fiscal year; provided, however: (i) any such loan to Flotek Industries UK Limited is evidenced by an intercompany promissory note in form and substance acceptable to Agent in its Permitted Discretion (the “Intercompany Note”); (ii) Flotek Industries UK Limited, simultaneously with the making of such Intercompany Note, grants Holdings a Lien to secure its obligations under the Intercompany Note pursuant to a security agreement or similar document in form and substance acceptable to Agent in its Permitted Discretion (the “Intercompany Security Agreement”); (iii) Holdings perfects each Lien granted under the Intercompany Security Agreement; and (iv) Holdings assigns pursuant to an assignment agreement in form and substance

satisfactory to Agent in its Permitted Discretion to Agent for the benefit of itself and the Lenders, the Intercompany Note, the Intercompany Security Agreement and each Lien granted pursuant to the Intercompany Security Agreement, including all recording and filing instruments evidencing any such Lien; (d) loans by Flotek Industries Holding Limited, Flotek Industries UK Limited and/or Flotek Technologies ULC to fund the Omani Investment; (e) loans by Holdings to CoilChem Water Technologies, LLC, not to exceed a maximum aggregate amount of \$400,000 and so long as collaterally assigned to Agent for the benefit of the Secured Parties, acceptable to Agent in its Permitted Discretion and (f) loans to Credit Parties to the extent permitted by clause (e) of the definition of Permitted Indebtedness.

2.02 Amendment to Section 1.2 – New Definitions. Effective as of the Effective Date, the following new definitions of “Eighth Amendment” and “Eighth Amendment Effective Date” shall be added to Section 1.2 in the proper alphabetic order:

“Eighth Amendment” shall mean that certain Eighth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement dated as of the Eighth Amendment Effective Date, by and among, Borrowers, Agent and Lender.

“Eighth Amendment Effective Date” shall mean June 7, 2017.

ARTICLE III CONDITIONS PRECEDENT

3.01 Conditions to Effectiveness. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent, unless specifically waived in writing by Agent:

(a) Agent shall have received the following documents or items, each in form and substance satisfactory to Agent and its legal counsel:

(i) this Amendment duly executed by each Borrower;

(ii) [reserved];

(iv) all other documents Agent may reasonably request with respect to any matter relevant to this Amendment or the transactions contemplated hereby; and

(v) all other fees, costs and expenses owed to or incurred by Agent and Lenders arising in connection with the Credit Agreement, the Other Documents, or this Amendment.

(b) The representations and warranties contained herein and in the Credit Agreement and the Other Documents, as each is amended hereby, shall be true and correct as of the date hereof, as if made on the date hereof; and

(c) No Default or Event of Default shall have occurred and be continuing.

3.02 No Waiver. Nothing contained in this Amendment shall be construed as a waiver by Agent or any Lender of any covenant or provision of the Credit Agreement (as amended hereby), the Other Documents, this Amendment, or of any other contract or instrument between any Borrower and Agent or any Lender, and the failure of Agent or any Lender at any time or times hereafter to require strict performance by any Borrower of any provision thereof shall not waive, affect or diminish any right of Agent to thereafter demand strict compliance therewith. Agent and each Lender hereby reserve all rights granted under the Credit Agreement, the Other Documents, this Amendment and any other contract or instrument between any Borrower, Lenders and Agent.

ARTICLE IV
RATIFICATIONS, REPRESENTATIONS, WARRANTIES AND OTHER AGREEMENTS

4.01 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Credit Agreement and the Other Documents, and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Credit Agreement and the Other Documents are ratified and confirmed and shall continue in full force and effect. Each Borrower hereby agrees that all liens and security interest securing payment of the Obligations under the Credit Agreement are hereby collectively renewed, ratified and brought forward as security for the payment and performance of the Obligations. Each Borrower and Agent agree that the Credit Agreement and the Other Documents, as amended hereby, shall continue to be legal, valid, binding and enforceable in accordance with their respective terms.

4.02 Representations and Warranties with respect to Other Documents. Each Borrower hereby represents and warrants to Agent that (a) the execution, delivery and performance of this Amendment and any and all Other Documents executed and/or delivered in connection herewith have been authorized by all requisite corporate action on the part of each Borrower and will not violate the Articles or Certificate of Incorporation or By-Laws or the Certificate of Formation or Operating Agreement of any Borrower; (b) the representations and warranties contained in the Credit Agreement, as amended hereby, and the Other Documents are true and correct on and as of the date hereof and on and as of the date of execution hereof as though made on and as of each such date; (c) no Default or Event of Default under the Credit Agreement, as amended hereby, has occurred and is continuing, unless such Default or Event of Default has been specifically waived in writing by Agent; and (d) each Borrower is in full compliance with all covenants and agreements contained in the Credit Agreement and the Other Documents, as amended hereby.

ARTICLE V
MISCELLANEOUS PROVISIONS

5.01 Survival of Representations and Warranties. All representations and warranties made in the Credit Agreement or the Other Documents, including, without limitation, any document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the Other Documents, and no investigation by Agent or any closing shall affect the representations and warranties or the right of Agent to rely upon them.

5.02 Reference to Credit Agreement. Each of the Credit Agreement and the Other Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Credit Agreement, as amended hereby, are hereby amended so that any reference in the Credit Agreement and such Other

Documents to the Credit Agreement shall mean a reference to the Credit Agreement as amended hereby.

5.03 Expenses of Agent. Each Borrower jointly and severally agrees to pay on demand all reasonable costs and expenses incurred by Agent in connection with any and all amendments, modifications, and supplements to the Other Documents, including, without limitation, the costs and fees of Agent's legal counsel, and all costs and expenses incurred by Agent in connection with the enforcement or preservation of any rights under the Credit Agreement, as amended hereby, or any Other Documents, including, without, limitation, the costs and fees of Agent's legal counsel.

5.04 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

5.05 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Agent, Lenders and each Borrower and their respective successors and assigns, except that no Borrower may assign or transfer any of its rights or obligations hereunder without the prior written consent of Agent.

5.06 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

5.07 Effect of Waiver. No consent or waiver, express or implied, by Lenders or Agent to or for any breach of or deviation from any covenant or condition by any Borrower shall be deemed a consent to or waiver of any other breach of the same or any other covenant, condition or duty.

5.08 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

5.09 Applicable Law. THIS AMENDMENT AND ALL OTHER AGREEMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

5.10 Final Agreement. THE CREDIT AGREEMENT AND THE OTHER DOCUMENTS, EACH AS AMENDED HEREBY, REPRESENT THE ENTIRE EXPRESSION OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF ON THE DATE THIS AMENDMENT IS EXECUTED. THE CREDIT AGREEMENT AND THE OTHER DOCUMENTS, AS AMENDED HEREBY, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NO MODIFICATION, RESCISSION, WAIVER, RELEASE OR AMENDMENT OF ANY PROVISION OF THIS AMENDMENT SHALL BE MADE, EXCEPT BY A WRITTEN AGREEMENT SIGNED BY BORROWERS AND AGENT.

5.11 Release. EACH BORROWER HEREBY ACKNOWLEDGES THAT IT HAS NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF

ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY ANY LOANS OR EXTENSIONS OF CREDIT FROM AGENT AND LENDERS TO SUCH BORROWER UNDER THE CREDIT AGREEMENT OR THE OTHER DOCUMENTS OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDERS AND AGENT. EACH BORROWER HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDERS, AGENT, THEIR PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH SUCH BORROWER MAY NOW OR HEREAFTER HAVE AGAINST LENDERS AND AGENT, THEIR PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY LOANS OR EXTENSIONS OF CREDIT FROM LENDERS AND AGENT TO SUCH BORROWER UNDER THE CREDIT AGREEMENT OR THE OTHER DOCUMENTS, INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE CREDIT AGREEMENT OR OTHER DOCUMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.

5.12 Guarantors Consent, Ratification and Release. Each of the undersigned Guarantors hereby consents to the terms of this Amendment, confirms and ratifies the terms of that certain Guaranty dated as of May 10, 2013 (the “FTK Guaranty”) executed by each of the undersigned in favor of Agent and the other Lenders. Each of the undersigned Guarantors acknowledges that its Guaranty is in full force and effect and ratifies the same, acknowledges that such undersigned has no defense, counterclaim, set-off or any other claim to diminish such undersigned’s liability under such documents, that such undersigned’s consent is not required to the effectiveness of the within and foregoing Amendment, and that no consent by any such undersigned is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Obligations, the Collateral, or any of the Other Documents. EACH OF THE UNDERSIGNED HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES AGENT AND LENDERS, THEIR PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT AND THIS CONSENT ARE EXECUTED, WHICH EACH SUCH UNDERSIGNED MAY NOW OR HEREAFTER HAVE AGAINST AGENT, DOCUMENTATION AGENT OR ANY LENDER, THEIR PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY “LOANS”, INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE

EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE REVOLVING CREDIT AND SECURITY AGREEMENT, AS AMENDED BY THIS AMENDMENT, OR THE OTHER DOCUMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT AND THIS CONSENT.

[REMAINDER OF PAGE INTENTIONALLY BLANK; SIGNATURE PAGES FOLLOW.]

TURBECO, INC., a Texas corporation

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

USA PETROVALVE, INC., a Texas corporation

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

FLORIDA CHEMICAL COMPANY, INC., a Delaware corporation

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

SITELARK LLC, a Texas limited liability company

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO

FLOTEK ECUADOR MANAGEMENT LLC, a Texas limited liability company

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

FLOTEK ECUADOR INVESTMENTS LLC, a Texas limited liability company

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

FLOTEK EXPORT, INC., a Texas corporation

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

FLOTEK HYDRALIFT, INC., a Texas corporation

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

FRACMAX ANALYTICS, LLC, a Texas limited liability company

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

FC PRO, LLC, a Delaware limited liability company

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO

ECLIPSE IOR SERVICES, LLC, a Texas limited liability company

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO

GUARANTORS:

FLOTEK PAYMASTER, INC.

By: _____ /s/ JOHN CHISHOLM

Name: John Chisholm

Title: CEO and President

FLOTEK INTERNATIONAL, INC.

By: _____ /s/ JOHN CHISHOLM

Name: John Chisholm

Title: CEO and President

AGENT:

PNC BANK, NATIONAL ASSOCIATION

By: _____ /s/ ANITA PULIGANDLA

Name: Anita Puligandla

Title: Vice President

PNC Bank, National Association

2100 Ross Avenue, Suite 1850

Dallas, Texas 75201

Attention: Relationship Manager (Flotek)

Telephone: (214) 871-1256

Facsimile: (214) 871-2015

Revolving Commitment Percentage: 100%

Revolving Commitment Amount \$55,000,000

Term Loan Commitment Percentage: 100%

Term Loan Commitment Amount \$10,000,000

**NINTH AMENDMENT TO AMENDED AND RESTATED
REVOLVING CREDIT, TERM LOAN AND SECURITY AGREEMENT**

THIS NINTH AMENDMENT TO AMENDED AND RESTATED REVOLVING CREDIT, TERM LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into effective July 1, 2017 (the "Effective Date"), by and among FLOTEK INDUSTRIES, INC., a corporation organized under the laws of the State of Delaware ("Holdings"), FLOTEK CHEMISTRY, LLC, a limited liability company organized under the laws of the State of Oklahoma ("Flotek Chemistry"), CESI MANUFACTURING, LLC, a limited liability company organized under the laws of the State of Oklahoma ("CESI Manufacturing"), MATERIAL TRANSLOGISTICS, INC., a corporation organized under the laws of the State of Texas ("MTI"), TELEDRIFT COMPANY, a corporation organized under the laws of the State of Delaware ("Teledrift"), TURBECO, INC., a corporation organized under the laws of the State of Texas ("Turbeco"), USA PETROVALVE, INC., a corporation organized under the laws of the State of Texas ("USA Petrovalve"), FLORIDA CHEMICAL COMPANY, INC., a corporation organized under the laws of the State of Delaware ("Florida Chemical"), SITELARK LLC, a limited liability company organized under the laws of the State of Texas ("Sitelark"), FLOTEK ECUADOR MANAGEMENT LLC, a limited liability company organized under the laws of the State of Texas ("Ecuador Management"), FLOTEK ECUADOR INVESTMENTS LLC, a limited liability company organized under the laws of the State of Texas ("Ecuador Investments"), FLOTEK EXPORT, INC., a corporation organized under the laws of the State of Texas ("Export"), ECLIPSE IOR SERVICES, LLC, a limited liability company organized under the laws of the State of Texas ("EOGA"), FRACMAX ANALYTICS, LLC, a limited liability company organized under the laws of the State of Texas ("Fracmax"), FC PRO, LLC, a limited liability company organized under the laws of the State of Delaware ("FC PRO"), FLOTEK HYDRALIFT, INC., a corporation organized under the laws of the State of Texas ("Hydralift"; and together with Holdings, Flotek Chemistry, CESI Manufacturing, MTI, Teledrift, Turbeco, USA Petrovalve, Florida Chemical, Sitelark, Ecuador Management, Ecuador Investments, Export, EOGA, Fracmax and FC PRO, collectively, the "Borrowers" and each individually, a "Borrower"), the financial institutions which are now or which hereafter become a party thereto (collectively, the "Lenders" and each individually a "Lender"), and PNC BANK, NATIONAL ASSOCIATION ("PNC"), as a Lender and as agent for Lenders (in such capacity, "Agent").

PRELIMINARY STATEMENTS

Borrowers, Lenders and Agent are parties to that certain Amended and Restated Revolving Credit, Term Loan and Security Agreement dated May 10, 2013, as amended by that certain First Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of December 31, 2013, that certain Second Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of December 5, 2014, that certain Third Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of June 19, 2015, that certain Fourth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of July 21, 2015, that certain Fifth Amendment to

Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2016, that certain Sixth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of November 2, 2016, that certain Seventh Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement and Sixth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, effective as of March 31, 2017, and that certain Eighth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, effective as of June 7, 2017 (as it may be further amended, restated, supplemented, or otherwise modified from time to time, the “Credit Agreement”); and

B. Borrowers have requested that Agent and the Lenders make certain amendments to the Credit Agreement; and

C. Subject to the terms and conditions set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent and the Lenders are willing to make certain amendments to the Credit Agreement, all as set forth herein.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, agree as follows:

ARTICLE I
DEFINITIONS

1.01 Capitalized terms used in this Amendment are defined in the Credit Agreement, as amended hereby, unless otherwise stated.

ARTICLE II
AMENDMENT

2.01 Amendment to Section 1.2 – Amended Definitions. Effective as of the Effective Date, the definition of “Permitted Loans” set forth in Section 1.2 is hereby deleted in its entirety and replaced with the following:

“Permitted Loans” shall mean: (a) the extension of trade credit by a Borrower to its Customer(s), in the Ordinary Course of Business in connection with a sale of Inventory or rendition of services, in each case on open account terms; (b) loans to employees in the Ordinary Course of Business not to exceed as to all such loans the aggregate amount of \$100,000 at any time outstanding; (c) loans to Flotek Industries Holding Limited, Flotek Industries UK Limited, Flotek Technologies ULC, Flotek Chemical Ecuador CIA LTDA, Petrovalve International, Inc. or Flotek Industries, FZE (x) up to a maximum aggregate amount of \$10,000,000 during 2015, and (y) thereafter, in an aggregate amount not to exceed \$5,000,000 in any fiscal year; provided, however: (i) any such loan to Flotek Industries UK Limited is evidenced by an intercompany promissory note in form and substance acceptable to Agent in its Permitted Discretion (the “Intercompany Note”); (ii) Flotek Industries UK Limited, simultaneously with the making of such Intercompany Note, grants Holdings a Lien to secure its obligations under the Intercompany Note pursuant to a security agreement or similar document in form and substance acceptable to Agent in its Permitted Discretion (the “Intercompany Security Agreement”); (iii) Holdings

perfects each Lien granted under the Intercompany Security Agreement; and (iv) Holdings assigns pursuant to an assignment agreement in form and substance satisfactory to Agent in its Permitted Discretion to Agent for the benefit of itself and the Lenders, the Intercompany Note, the Intercompany Security Agreement and each Lien granted pursuant to the Intercompany Security Agreement, including all recording and filing instruments evidencing any such Lien; (d) loans by Flotek Industries Holding Limited, Flotek Industries UK Limited and/or Flotek Technologies ULC to fund the Omani Investment; (e) loans by Holdings to CoilChem Water Technologies, LLC, not to exceed a maximum aggregate amount of \$400,000 and so long as collaterally assigned to Agent for the benefit of the Secured Parties, acceptable to Agent in its Permitted Discretion; (f) loans by Holdings to Resurgence Resources Group, LLC, not to exceed a maximum aggregate amount of \$1,000,000 and so long as collaterally assigned to Agent for the benefit of the Secured Parties, acceptable to Agent in its Permitted Discretion and (g) loans to Credit Parties to the extent permitted by clause (e) of the definition of Permitted Indebtedness.

2.02 Amendment to Section 1.2 – New Definitions. Effective as of the Effective Date, the following new definitions of “Ninth Amendment” and “Ninth Amendment Effective Date” shall be added to Section 1.2 in the proper alphabetic order:

“Ninth Amendment” shall mean that certain Ninth Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement dated as of the Ninth Amendment Effective Date, by and among, Borrowers, Agent and Lender.

“Ninth Amendment Effective Date” shall mean July 1, 2017.

ARTICLE III CONDITIONS PRECEDENT

3.01 Conditions to Effectiveness. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent, unless specifically waived in writing by Agent:

(a) Agent shall have received the following documents or items, each in form and substance satisfactory to Agent and its legal counsel:

(i) this Amendment duly executed by each Borrower;

(ii) [reserved];

(iv) all other documents Agent may reasonably request with respect to any matter relevant to this Amendment or the transactions contemplated hereby; and

(v) all other fees, costs and expenses owed to or incurred by Agent and Lenders arising in connection with the Credit Agreement, the Other Documents, or this Amendment.

(b) The representations and warranties contained herein and in the Credit Agreement and the Other Documents, as each is amended hereby, shall be true and correct as of the date hereof, as if made on the date hereof; and

(c) No Default or Event of Default shall have occurred and be continuing.

3.02 No Waiver. Nothing contained in this Amendment shall be construed as a waiver by Agent or any Lender of any covenant or provision of the Credit Agreement (as amended hereby), the Other Documents, this Amendment, or of any other contract or instrument between any Borrower and Agent or any Lender, and the failure of Agent or any Lender at any time or times hereafter to require strict performance by any Borrower of any provision thereof shall not waive, affect or diminish any right of Agent to thereafter demand strict compliance therewith. Agent and each Lender hereby reserve all rights granted under the Credit Agreement, the Other Documents, this Amendment and any other contract or instrument between any Borrower, Lenders and Agent.

ARTICLE IV

RATIFICATIONS, REPRESENTATIONS, WARRANTIES AND OTHER AGREEMENTS

4.01 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Credit Agreement and the Other Documents, and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Credit Agreement and the Other Documents are ratified and confirmed and shall continue in full force and effect. Each Borrower hereby agrees that all liens and security interest securing payment of the Obligations under the Credit Agreement are hereby collectively renewed, ratified and brought forward as security for the payment and performance of the Obligations. Each Borrower and Agent agree that the Credit Agreement and the Other Documents, as amended hereby, shall continue to be legal, valid, binding and enforceable in accordance with their respective terms.

4.02 Representations and Warranties with respect to Other Documents. Each Borrower hereby represents and warrants to Agent that (a) the execution, delivery and performance of this Amendment and any and all Other Documents executed and/or delivered in connection herewith have been authorized by all requisite corporate action on the part of each Borrower and will not violate the Articles or Certificate of Incorporation or By-Laws or the Certificate of Formation or Operating Agreement of any Borrower; (b) the representations and warranties contained in the Credit Agreement, as amended hereby, and the Other Documents are true and correct on and as of the date hereof and on and as of the date of execution hereof as though made on and as of each such date; (c) no Default or Event of Default under the Credit Agreement, as amended hereby, has occurred and is continuing, unless such Default or Event of Default has been specifically waived in writing by Agent; and (d) each Borrower is in full compliance with all covenants and agreements contained in the Credit Agreement and the Other Documents, as amended hereby.

ARTICLE V

MISCELLANEOUS PROVISIONS

5.01 Survival of Representations and Warranties. All representations and warranties made in the Credit Agreement or the Other Documents, including, without limitation, any document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the Other Documents, and no investigation by Agent or any closing shall affect the representations and warranties or the right of Agent to rely upon them.

5.02 Reference to Credit Agreement. Each of the Credit Agreement and the Other Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Credit Agreement, as

amended hereby, are hereby amended so that any reference in the Credit Agreement and such Other Documents to the Credit Agreement shall mean a reference to the Credit Agreement as amended hereby.

5.03 Expenses of Agent. Each Borrower jointly and severally agrees to pay on demand all reasonable costs and expenses incurred by Agent in connection with any and all amendments, modifications, and supplements to the Other Documents, including, without limitation, the costs and fees of Agent's legal counsel, and all costs and expenses incurred by Agent in connection with the enforcement or preservation of any rights under the Credit Agreement, as amended hereby, or any Other Documents, including, without, limitation, the costs and fees of Agent's legal counsel.

5.04 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

5.05 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Agent, Lenders and each Borrower and their respective successors and assigns, except that no Borrower may assign or transfer any of its rights or obligations hereunder without the prior written consent of Agent.

5.06 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

5.07 Effect of Waiver. No consent or waiver, express or implied, by Lenders or Agent to or for any breach of or deviation from any covenant or condition by any Borrower shall be deemed a consent to or waiver of any other breach of the same or any other covenant, condition or duty.

5.08 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

5.09 Applicable Law. THIS AMENDMENT AND ALL OTHER AGREEMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

5.10 Final Agreement. THE CREDIT AGREEMENT AND THE OTHER DOCUMENTS, EACH AS AMENDED HEREBY, REPRESENT THE ENTIRE EXPRESSION OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF ON THE DATE THIS AMENDMENT IS EXECUTED. THE CREDIT AGREEMENT AND THE OTHER DOCUMENTS, AS AMENDED HEREBY, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NO MODIFICATION, RESCISSION, WAIVER, RELEASE OR AMENDMENT OF ANY PROVISION OF THIS AMENDMENT SHALL BE MADE, EXCEPT BY A WRITTEN AGREEMENT SIGNED BY BORROWERS AND AGENT.

5.11 Release. EACH BORROWER HEREBY ACKNOWLEDGES THAT IT HAS NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY ANY LOANS OR EXTENSIONS OF CREDIT FROM AGENT AND LENDERS TO SUCH BORROWER UNDER THE CREDIT AGREEMENT OR THE OTHER DOCUMENTS OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDERS AND AGENT. EACH BORROWER HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDERS, AGENT, THEIR PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH SUCH BORROWER MAY NOW OR HEREAFTER HAVE AGAINST LENDERS AND AGENT, THEIR PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY LOANS OR EXTENSIONS OF CREDIT FROM LENDERS AND AGENT TO SUCH BORROWER UNDER THE CREDIT AGREEMENT OR THE OTHER DOCUMENTS, INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE CREDIT AGREEMENT OR OTHER DOCUMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.

5.12 Guarantors Consent, Ratification and Release. Each of the undersigned Guarantors hereby consents to the terms of this Amendment, confirms and ratifies the terms of that certain Guaranty dated as of May 10, 2013 (the "FTK Guaranty") executed by each of the undersigned in favor of Agent and the other Lenders. Each of the undersigned Guarantors acknowledges that its Guaranty is in full force and effect and ratifies the same, acknowledges that such undersigned has no defense, counterclaim, set-off or any other claim to diminish such undersigned's liability under such documents, that such undersigned's consent is not required to the effectiveness of the within and foregoing Amendment, and that no consent by any such undersigned is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Obligations, the Collateral, or any of the Other Documents. EACH OF THE UNDERSIGNED HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES AGENT AND LENDERS, THEIR PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT AND THIS CONSENT ARE EXECUTED, WHICH EACH SUCH UNDERSIGNED MAY NOW OR HEREAFTER HAVE AGAINST AGENT, DOCUMENTATION AGENT OR ANY LENDER, THEIR PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY "LOANS", INCLUDING, WITHOUT LIMITATION,

ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE REVOLVING CREDIT AND SECURITY AGREEMENT, AS AMENDED BY THIS AMENDMENT, OR THE OTHER DOCUMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT AND THIS CONSENT.

[REMAINDER OF PAGE INTENTIONALLY BLANK; SIGNATURE PAGES FOLLOW.]

TURBECO, INC., a Texas corporation

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

USA PETROVALVE, INC., a Texas corporation

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

FLORIDA CHEMICAL COMPANY, INC., a Delaware corporation

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

SITELARK LLC, a Texas limited liability company

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO

FLOTEK ECUADOR MANAGEMENT LLC, a Texas limited liability company

By: _____ /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO and President

FLOTEK ECUADOR INVESTMENTS LLC, a Texas limited liability company

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Name: John Chisholm
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By: /s/ JOHN CHISHOLM
Name: John Chisholm
Title: CEO

GUARANTORS:

FLOTEK PAYMASTER, INC.

By: _____ /s/ JOHN CHISHOLM

Name: John Chisholm

Title: CEO and President

FLOTEK INTERNATIONAL, INC.

By: _____ /s/ JOHN CHISHOLM

Name: John Chisholm

Title: CEO and President

AGENT:

PNC BANK, NATIONAL ASSOCIATION

By: _____ /s/ ANITA PULIGANDLA

Name: Anita Puligandla

Title: Vice President

PNC Bank, National Association

2100 Ross Avenue, Suite 1850

Dallas, Texas 75201

Attention: Relationship Manager (Flotek)

Telephone: (214) 871-1256

Facsimile: (214) 871-2015

Revolving Commitment Percentage: 100%

Revolving Commitment Amount \$65,000,000

EMPLOYMENT AGREEMENT

THIS AGREEMENT (this "Agreement") is made as of April 1, 2016 ("Effective Date"), between Flotek Industries, Inc., a Delaware corporation (the "Company"), and Robert Bodnar ("Employee").

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

1. Employment. The Company shall employ and continue to employ Employee, and Employee shall be employed and continue to be employed with the Company, upon the terms and conditions set forth in this Agreement for the period beginning on the date hereof and ending on the Termination Date, as defined in Section 4 hereof (the "Employment Period").

2. Position and Duties.

(a) Employee shall initially serve as Chief Information and Transformation Officer of the Company and shall be responsible for such duties as may be reasonably prescribed by the Board of Directors of the Company or the Chief Executive Officer of the Company.

(b) Employee shall devote his reasonable best efforts and his full business time and attention (except for permitted vacation periods, periods of illness or other incapacity) to the business and affairs of the Company.

3. Base Salary and Benefits.

(a) Employee's annual base salary for the Employment Period shall initially be \$310,000 (the "Base Salary") and may be adjusted to \$340,000 effective April 1, 2017 as may be determined by the Compensation Committee of the Board of Directors, in its sole discretion. The Base Salary shall be payable in approximately equal installments in accordance with the Company's general payroll practices and shall be subject to required withholding. Any change in Base Salary shall be in the sole discretion of the Compensation Committee of the Board of Directors of the Company. During the Employment Period, Employee shall be entitled to participate in all of the Company's employee benefit programs for which employees of the Company are generally eligible, at a level commensurate with Employee's position in the Company.

(b) Employee shall be entitled to annual bonuses pursuant to the Management Incentive Plan (the "MIP") of the Company, pursuant to such terms as shall be established by the Compensation Committee of the Board. Employee will be eligible to participate in the Performance Unit Plan of the Company pursuant to the terms of that plan.

(c) Employee shall be entitled to reside rent-free at a company apartment within Harris County, Texas, at the location selected by the Company, throughout the Employment Period.

(d) The Company shall reimburse Employee for all reasonable expenses incurred by him in the course of performing his duties under this Agreement which are consistent with the

Company's policies in effect from time to time for its employees with respect to travel, entertainment and other business expenses, subject to the Company's requirements for its employees with respect to reporting and documentation of such expenses pursuant to applicable Treasury Regulations.

(e) In addition to the Base Salary, Employee will be eligible to receive raises, bonuses and incentive compensation to the extent approved from time to time by the Compensation Committee of the Board of Directors of the Company, in its discretion.

(f) Employee shall be eligible for vacations as permitted under Company's policies in effect from time to time, with a minimum of four weeks vacation during each year in the Employment Period.

4. Term and Termination.

(a) The Employment Period shall continue until terminated upon the earlier of (i) March 31, 2018 (the "Expiration Date"), (ii) Employee's resignation with or without Good Reason or Employee's death or Disability or (iii) the termination of the Employment Period by the Company with or without Cause. The date on which Employee's employment with the Company terminates is referred to herein as the "Termination Date."

(b) Employee's employment with the Company will be "at will," meaning that either Employee or the Company may terminate Employee's employment at any time and for any reason, with or without Cause or Good Reason. Any contrary representations that may have been made to Employee are superseded by this Agreement. However, depending on the reason for such termination, Employee may be eligible for a severance package on the terms and conditions set forth below.

(c) In the event the Employment Period terminates on account of the death of Employee, the Company shall cause all restricted stock and stock options in effect on the Effective Date to vest and be exercisable.

5. Severance. In no way limiting the Company's policy of employment at will:

(a) If Employee's employment with the Company is terminated by the Company without Cause or by Employee with Good Reason prior to the Expiration Date, and provided that all of the following have occurred within 60 days following the termination of Employee's employment with the Company (such 60th day being referred to as the "Release Date"): (i) Employee first signs and delivers to the Company a Confidential Severance and Release Agreement in substantially the same form as that attached hereto as Exhibit B (the "Release Agreement"), (ii) any revocation right of the Employee under such Release Agreement shall have expired, and (iii) such Release Agreement shall have become effective, Employee shall be entitled to receive severance compensation equal to 75% of his annual Base Salary and Target Bonus for purposes of the MIP in effect for the year in which the Termination Date occurs (determined regardless of the actual results of the Company for that year), payable in nine (9) monthly installments equal to one-ninth of such severance compensation, subject to required withholding, payable at the end of each of the next nine (9) full calendar months following the first full calendar month following the Release Date.

(b) Notwithstanding anything to the contrary herein contained, except to the extent required by law, the Company shall not be required to pay any amounts under this Section 5 or

elsewhere in this Agreement if Employee is in breach of any of its obligations under this Agreement or any other Agreement with the Company, including without limitation, any obligation relating to the treatment of Company confidential information and any non-compete obligation.

(c) If Employee's employment with the Company is terminated for Cause or death or Disability, or Employee resigns without Good Reason, Employee shall be entitled to receive only: (i) Employee's Base Salary earned and payable through the Termination Date; (ii) any accrued but unused vacation/time off to the extent required under applicable law; (iii) reimbursement for all incurred but unreimbursed expenses to the extent Employee is entitled to be reimbursed; and (iv) any other earned but unpaid compensation, if applicable, as of the Termination Date.

(d) For purposes of this Agreement, the following terms shall have the meanings set forth below:

"Cause" shall mean (i) Employee's continued failure to substantially perform one or more of Employee's essential duties and obligations to the Company (other than any such failure resulting from a Disability) which, to the extent such failure is remediable, Employee fails to remedy in a reasonable period of time (not to exceed 30 days) after receipt of written notice from the Company; (ii) Employee's refusal or failure to comply with the reasonable and legal directives of the Board of Directors after written notice from the Board describing Employee's failure to comply and, if such failure is remediable, Employee's failure to remedy same within 10 days of receiving written notice; (iii) any act of personal dishonesty, fraud or misrepresentation taken by Employee which was intended to result in substantial gain or personal enrichment of the Employee at the expense of the Company; (iv) Employee's violation of a federal or state law or regulation applicable to the Company's business which violation was or is reasonably likely to be materially injurious to the Company; (v) Employee's conviction of, or plea of nolo contendere or guilty to, a felony under the laws of the United States or any State that is reasonably likely to be materially injurious to the Company; (vi) Employee's abuse of drugs, other narcotics or alcohol during working hours or where such abuse (whenever occurring) impacts on Employee's working day, (vii) Employee's breach of any of his material obligations under any written agreement with the Company (including without limitation this Agreement and any proprietary information and inventions assignment agreement with the Company); or (viii) Employee's violation of a material policy of the Company which, to the extent such failure is remediable, Employee fails to remedy in a reasonable period of time (not to exceed 30 days) after receipt of written notice from the Company.

"Disability" shall have the meaning assigned to such term in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

"Good Reason" shall exist upon the occurrence of one of the following Company actions (unless Employee consents in writing to such action(s)): (i) a material reduction of the Employee's salary and employee benefits to which the Employee was entitled immediately prior to such reduction, (ii) a material reduction in the duties, authority or responsibilities relative to the Employee's duties, authority or responsibilities as in effect immediately prior to such reduction, provided, however, that if the Company assigns to the Employee duties for another senior executive position with the Company shall not constitute Good Reason; or (iii) the relocation of the Employee to a facility or a location more than fifty (50) miles from the Employee's then present location; provided, however, that (A)

Employee 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 or her intent to terminate employment based on such action(s) and (B) the Company will have 30 days from the date that such written notice is provided by Employee to cure such action(s).

(e) Notwithstanding anything herein to the contrary, (i) if at the time of Employee's termination of employment with the Company, Employee is a "specified employee" within the meaning of Section 409A of the Code, and the deferral of the commencement of any payments or benefits (or portions thereof) otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then the Company will defer the payment of any such payments or benefits (or portions thereof) hereunder (without any reduction in such payments or benefits ultimately paid or provided to Employee) until the date that is six months following Employee's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code) to the extent and amount necessary to comply with Section 409A of the Code, with such delayed payments to be made in lump sum on the first day of the seventh month following the end of such six month period, and (ii) if any other payments of money or other benefits due to Employee hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Board, that does not cause such an accelerated or additional tax. The Company shall consult with Employee in good faith regarding the application of this Section 5(e). Notwithstanding any other provision in the Agreement, the Company and Employee will cooperate in good faith to amend or modify the Agreement so that the payments under this Agreement qualify for exemption from or comply with Code Section 409A; provided, however, that the Company makes no representations that the payments under the Agreement shall be exempt from or comply with Code Section 409A and makes no undertaking to preclude Code Section 409A from applying to payments under the Agreement. For purposes of this Section 5, a termination of employment only occurs if it constitutes a "separation from service" under Section 409A of the Code and the regulations promulgated thereunder. With respect to the payments identified in Section 5(a)(i)-(iii), each payment, including each separate installment payment identified thereunder, will be considered the right to a series of separate payments.

6. Confidential Information.

(a) Company Information. The Company agrees, in consideration for Employee's agreement to the various terms of this Agreement, to provide Employee with Confidential Information (as defined below) belonging to the Company. Employee agrees at all times, during the term of employment and thereafter, to hold in strictest confidence, and not to use, except for the benefit of the Company or in connection with Employee's responsibilities under his employment, or to disclose to any person, firm, corporation or other entity without written authorization of an officer of the Company any Confidential Information of the Company. Employee further agrees not to make copies of such Confidential Information except as authorized in writing by the Company or required for the performance of Employee's responsibilities under his employment. Any such copies made pursuant to the preceding sentence shall be available to, and shall remain the sole property of, the Company at all times. Employee understands that "Confidential Information" means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, (i) information derived from reports, investigations, experiments, research and work in progress, (ii) methods of operation, (iii) market data, (iv) technology, hardware, proprietary

computer programs and code (in object code and source code format), (v) drawings, designs, plans and proposals, (vi) marketing and sales programs, (vii) customer, licensee and supplier lists and any other information about the Company's relationships with others, (viii) historical financial information and financial projections, (ix) network and system architecture, (x) all other formulae, patterns, devices or compilations, concepts, ideas, materials and information prepared or performed for or by the Company, (xi) all information related to the business plan, business, products, purchases or sales of the Company or any of its suppliers and customers, (xii) software or applications of software, developments, inventions, models, samples, flowcharts, statistical data and compilations, (xiii) computer programs, disks, diskettes, tapes, and (xiv) all other proprietary information disclosed to Employee by the Company either directly or indirectly in writing, orally or by drawings or observation, or created by Employee during the period of his employment, using Company time and/or materials or equipment. Employee understands that Confidential Information includes, but is not limited to, information pertaining to any aspects of the Company's business which is either information not known by actual or potential competitors of the Company, or proprietary information of the Company or its customers or suppliers or other third parties with which it has business relationships, whether of a technical or financial nature, or otherwise. Employee further understands that Confidential Information does not include any of the foregoing items which are publicly available or which become publicly known and made generally available through no wrongful act of Employee or of others who were under confidentiality obligations as to the item or items involved.

(b) Former Employer Information. Employee represents and warrants that Employee's performance of this Agreement has not breached, and will not breach, any agreement or trust relationship between himself and any former, concurrent, or subsequent employer or other third party (collectively, "Other Party"), including, without limitation, any agreement with respect to such Other Party's inventions, unpublished documents or confidential or proprietary information. Employee agrees that Employee will not disclose to the Company, bring on the Company's premises, or induce the Company to use any Other Party's inventions, unpublished documents or confidential or proprietary information without such Other Party's prior written consent, a copy of which Employee also shall provide to the Company.

(c) Third Party Information. Employee recognizes that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Employee agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out Employee's work for the Company consistent with the terms of this Agreement

7. Inventions.

(a) Inventions Retained and Licensed. Employee has attached hereto, as Exhibit A, a list describing all ideas, discoveries, inventions, original works of authorship, developments, designs, work products, innovations, concepts, know-how and trade secrets which were made by Employee prior to Employee's employment with the Company (collectively referred to as "Prior Inventions"), which belong to Employee, which relate to the Company's current or proposed business, products or research and development, whether or not specifically within Employee's duties or responsibilities with the Company, whether or not patentable or registrable under copyright or similar laws and whether or not reduced to writing, and which are not assigned to the Company hereunder; or, if no such list is attached, Employee represents that there are no such Prior Inventions.

If, in the course of Employee's employment with the Company, Employee incorporates into a Company product, process, program, software or machine a Prior Invention owned by Employee or in which Employee has an interest, the Company is hereby granted and shall have a nonexclusive, royalty-free, transferable, irrevocable, perpetual, worldwide license to make, have made, modify, use, reproduce, distribute, create derivative works from, publicly perform, publicly display and sell such Prior Invention as part of, or in connection with such product, process, program, software, work or machine. Employee agrees that Employee will not, without the prior approval of the Company, incorporate in any Company product, process, program, software, work or machine any photographs, video or film, music, computer programs or other materials obtained from a third party (via the Internet or otherwise) for which the Company has not been granted an express license for such incorporation.

(b) Assignment of Inventions. Employee agrees that Employee will promptly make full written disclosure to the Company of any and all ideas, discoveries, inventions, original works of authorship, developments, designs, work products, innovations, concepts, know-how, and trade secrets which relate to the Company's current or proposed business, products or research and development, whether or not specifically within Employee's duties or responsibilities with the Company and whether or not patentable or registrable under copyright or similar laws and whether or not reduced to writing, which Employee may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time Employee is employed with the Company, whether or not during working hours or by the use of the facilities of the Company (collectively referred to as "Inventions"). Employee further agrees that Employee will hold in trust for the sole right and benefit of the Company, and hereby assigns to the Company, or its designee, all Employee's right, title, and interest in and to any and all such Inventions which Employee may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, using the Company's time and/or materials or equipment. Employee further acknowledges that all of the above-described Inventions made during the period of Employee's employment with the Company are "works made for hire", as that term is defined in the United States Copyright Act, to the greatest extent permitted by applicable law, and are compensated by Employee's salary. All Inventions or other work product created by Employee or on Employee's behalf or by Employee's affiliates pursuant to this Agreement shall be free and clear of all encumbrances, including without limitation, security interest(s), licenses, liens or other restrictions other than as expressly provided for in this Agreement. Employee hereby appoints the Company as Employee's attorney-in-fact to execute on Employee's behalf any assignments or other documents deemed necessary by the Company to protect or perfect its rights to any Inventions.

(c) Inventions Assigned to the United States. Employee agrees to assign to the United States government all Employee's right, title, and interest in and to any and all Inventions whenever such full title is required to be in the United States by a contract between the Company and the United States or any of its agencies.

(d) Maintenance of Records. Employee agrees to create and maintain adequate and current written records of all Inventions made by Employee (solely or jointly with others), and assigned to the Company under Section 7(b) above, during the term of Employee's employment with the Company. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by the Company. The records will be available to and remain the sole property of the Company at all times. Employee agrees not to remove such records from the

Company's place of business except as expressly permitted by the Company policy, which may, from time to time, be revised at the sole discretion of the Company.

(e) Patent and Copyright Registrations. Employee agrees to reasonably assist the Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in the Inventions and any copyrights, patents, mask work rights, moral rights, or other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which the Company shall reasonably deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights, moral rights or other intellectual property rights relating thereto. Employee further agrees that Employee's obligation to execute or cause to be executed, when it is in Employee's power to do so, any such instrument or papers shall continue after the termination of this Agreement. If the Company is unable because of Employee's mental or physical incapacity, unavailability, or for any other reason to secure Employee's signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to the Company as above, then Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee's agent and attorney in fact, to act for and in Employee's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent, copyright registrations or enforcement of other intellectual property rights thereon with the same legal force and effect as if executed by Employee.

8 . Conflicting Employment. Employee agrees that, during the Employment Period, Employee will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the Employment Period, nor will Employee engage in any other activities that conflict with Employee's obligations to the Company.

9 . Returning Company Documents. Employee agrees that, at the time of termination of Employee's employment with the Company, Employee will deliver to the Company (and will not keep in Employee's possession, copy, reproduce, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any of the aforementioned items developed by Employee pursuant to Employee's employment with the Company or otherwise belonging to the Company, its successors or assigns. Employee further agrees that any property situated on the Company's premises or on the Company's computers or servers, including disks and other storage media, email, and filing cabinets and other work areas, is subject to inspection by Company personnel at any time with or without notice.

10 . Notification of New Employer. Upon termination of Employee's employment with the Company, Employee hereby grants consent to notification by the Company to Employee's new employer or any other party with which Employee may enter into a new relationship with respect to Employee's obligations under this Agreement.

11. Certain Covenants.

(a) Solicitation of Employees, Consultants and Customers. In consideration of the Company's obligations under this Agreement and the other consideration recited above, including but not limited to the Company's obligations pursuant to Section 5, Employee agrees that, during the Employment Period and for a period of twenty-four months immediately following the Termination Date ("Restricted Period"), Employee shall not, either directly or indirectly, either alone or in concert with others, solicit, induce, recruit, encourage or entice, or attempt to solicit, induce, recruit, encourage or entice, any employee of or consultant to the Company to leave the Company or work for anyone in the businesses in which the Company and its affiliates are engaged at any time during the one-year period ending on the Termination Date ("Company Business"). Also, during the Restricted Period, Employee will not directly or indirectly, either for himself or for any other person, firm or corporation, divert or take away or attempt to divert or take away, call on or solicit or attempt to call on or solicit, any customer of the Company, in connection with any business or activity similar to or related to the Company Business, including but not limited to those on whom Employee called or whom Employee solicited or with whom Employee became acquainted while engaged as an employee of or a consultant to the Company. During his employment, Employee agrees not to plan or otherwise take any steps, preliminary or otherwise, either alone or in concert with others, to set up or engage in any business enterprise that would be in competition with the Company.

(b) Noncompetition.

(i) Employee agrees that, during the Restricted Period, Employee will not, directly or indirectly, engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation, financing, or control of, be employed by, associated with, or in any manner connected with, or render services or advice to, any business whose primary line of business is competitive with the Company Business or personally engage in, manage or operate, or personally participate in the conduct, management or operation of, be employed by, associated with, or render services or advice to, any business competitive with the Company Business anywhere in Houston, Texas or in any geographical area within fifty (50) miles of the city limits of Houston, Texas.

(ii) Notwithstanding the provisions of this Section 11, Employee's non-competition obligations hereunder shall not preclude Employee from owning less than one percent (1%) of any class of securities of any enterprise conducting business in the Company Business (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934.

(iii) Employee agrees that the time periods and the geographic scope within this Section 11 are reasonable in order for the Company to be protected from unfair competition and to preserve the Company's Confidential Information and other legitimate business interests, and are ancillary to and designed to ensure Employee's compliance with the confidentiality provisions of this Agreement. Employee specifically recognizes and acknowledges that the work of the Company is so specialized and unique that only such geographic scope can protect the Company from unfair competition.

(c) Breach. In the event of Employee's breach of any covenant set forth in this Section 11, the term of such covenant will be extended by the period of the duration of such breach.

(d) Severability. If at any time the provisions of this Section 11 are determined to be invalid or unenforceable by reason of being vague or unreasonable as to area, duration or scope of activity, this Section 11 shall be considered divisible and shall be immediately amended to only such area, duration or scope of activity as shall be determined to be reasonable and enforceable by the court or other body having jurisdiction over the matter; and Employee agrees that this Section 11 as so amended shall be valid and binding as though any invalid or unenforceable provision had not been included herein.

12. Notices. Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, sent by a nationally recognized overnight delivery service, or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

Notices to Employee:

Notices to the Company:

Flotek Industries, Inc.
10603 W. Sam Houston Pkwy. N., Suite 300
Houston, TX 77043

or such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement shall be deemed to have been given when so delivered or, if sent by first class mail, three (3) days after so mailed.

13. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

14. Complete Agreement. Except with respect to any proprietary information and inventions assignment agreement between the Company and the Employee, this Agreement embodies with respect to the subject matter hereof the complete agreement and understanding among the parties and supersedes and preempts with respect to the subject matter hereof any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

15. Counterparts. This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

16. Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Employee, the Company and their respective heirs, successors and assigns, except that Employee may not assign his rights or delegate his obligations hereunder without the

prior written consent of the Company except by operation of law to Employee's estate upon the death of Employee.

17. 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.

18. Consent to Personal Jurisdiction. Subject to terms and conditions of Section 19, any suit, action or other proceeding arising out of or based upon this Agreement shall be brought in the federal and state courts located within Harris County, Texas.

19. Arbitration and Equitable Remedies.

(a) Arbitration. Except as provided in Section (b) below, Employee agrees that 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 and Employee shall split 50%-50% the costs and expenses of such arbitration, and the substantially prevailing party shall be entitled to an award of attorneys fees.

(b) Equitable Remedies. Each of the Company and Employee agree that disputes relating to or arising out of a breach of the covenants contained in Sections 6 through 11 of this Agreement would likely require injunctive relief to maintain the status quo of the parties pending the appointment of an arbitrator pursuant to this Agreement. The parties hereto also agree that it would be impossible or inadequate to measure and calculate the damages from any breach of the covenants contained in this Agreement prior to resolution of any dispute pursuant to arbitration. Accordingly, if either party claims that the other party has breached any covenant contained in Sections 6 through 11 of this Agreement, that party will have available, in addition to any other right or remedy, the right to obtain an injunction from a court of competent jurisdiction restraining such breach or threatened breach and/or to specific performance of any such provision of this Agreement pending resolution of the dispute through arbitration. The parties further agree that no bond or other security shall be required in obtaining such equitable relief and hereby consents to the issuance of such injunction and to the ordering of specific performance. However, upon appointment of an arbitrator, the arbitrator shall review any interim, injunctive relief granted by a court of competent jurisdiction and shall have the discretion, jurisdiction, and authority to continue, expand, or dissolve such relief pending completion of the arbitration of such dispute or controversy. The parties agree that any orders issued by the arbitrator may be enforced by any court of competent jurisdiction if necessary to ensure compliance by the parties.

20. Amendment and Waiver. The provisions of this Agreement may be amended or waived only with the prior written consent of the Company and Employee, and no course of conduct

or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

[remainder of page intentionally left blank]

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

FLOTEK INDUSTRIES, INC.

By: _____ /s/ JOHN W. CHISHOLM
Name: _____ John W. Chisholm
Title: _____ President, Chief Executive Officer and Chairman of the Board

/s/ ROBERT BODNAR
Robert Bodnar

**SIGNATURE PAGE TO
EMPLOYMENT AGREEMENT**

EXHIBIT A

**LIST OF PRIOR INVENTIONS
AND ORIGINAL WORKS OF AUTHORSHIP**

<u>Title</u>	<u>Date</u>	<u>Identifying Number or Brief Description</u>
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EXHIBIT B

CONFIDENTIAL SEVERANCE AND RELEASE AGREEMENT

This Confidential Severance and Release Agreement (“Agreement”) is entered into on [date], by and between [name] (the “Employee”) and Flotek Industries, Inc. (the “Company”).

WHEREAS, Employee was employed by Company as a [position];

WHEREAS, Employee’s employment has terminated effective [date];

WHEREAS, the Company has offered to provide Employee with the a severance package to facilitate his transition from the Company as provided in Section 5 of the Employment Agreement dated as of _____, 20__ (the “Employment Agreement”), by and between Employee and Company, contingent on the execution delivery and effectiveness of this Agreement (the “Severance”); and

WHEREAS, Employee has agreed to release the Company from any claims arising from or related to Employee’s employment relationship with the Company;

NOW THEREFORE, in consideration of the mutual promises made herein, the Company and Employee (jointly referred to as the “Parties”) hereby agree as follows:

1. Termination. Employee’s employment with the Company will terminate on [date] (the “Termination Date”).
2. Consideration. The Company agrees to pay Employee the Severance, less applicable payroll deductions. Provided Employee complies with his obligations pursuant to Section 7, below, Company shall pay the Severance amount in accordance with the Company’s general payroll practices as provided in the Employment Agreement, subject to required withholding. Employee acknowledges that in the absence of this Agreement, he would not be entitled to this payment.
3. Release by Employee. Employee, on behalf of himself and his respective past, present, and future representatives, attorneys, agents, heirs, successors and assigns, hereby releases the Company and its affiliates and their respective past, present, and future employees, directors, officers, representatives, attorneys, agents, heirs, successors and assigns, and each of them (collectively, the “Released Parties”), from any and all claims, demands, causes of action, obligations, damages, and liabilities, whether or not now known, suspected, or claimed, that Employee may possess against the Company arising from his employment up to, until, and including the Effective Date of this Agreement, other than claims, demands, causes of action, obligations, damages, and liabilities arising from the fraud or gross misconduct of the Released Parties (the “Released Claims”) . Without limiting the generality of this release, Employee agrees to waive any and all Released Claims against the Released Parties arising from employment with the Company, and covenants not to sue them for any such claims including, but not limited to, those based on state or federal law regarding age, sex (including sexual harassment), religion, handicap, national origin or other discrimination, the Age Discrimination in Employment Act, the Fair Labor Standards Act

(including the Equal Pay Act), the Americans with Disabilities Act, the Family and Medical Leave Act, the Employee Retirement Income Security Act, Title VII of the Civil Rights Act of 1964, the Texas Labor Code, the Texas Administrative Code, any other applicable state or local codes or ordinances, and contract or tort claims, whether such claim be based upon an action filed by Employee or a governmental agency, and any and all claims for attorneys' fees and/or costs. The Parties agree that the release set forth in this Paragraph shall be and remain in effect in all respects as a complete and general release as to the matters released. This release does not extend to any obligations incurred under this Agreement or to any obligations under the Bylaws of the Company to Employee with regard to indemnification and advancement of expenses to or for the benefit of Employee.

4. Unknown Claims. Employee expressly acknowledges that this Agreement resolves and releases all legal claims he may have against Company as of the date of this Agreement arising from his employment with the Company, including claims of which he may not be aware.

5. Non-Admission. The fact and terms of this Agreement are not an admission by the Company of liability or other wrongdoing under any law.

6. Payment of Salary. Employee acknowledges and represents that the Company has paid all salary, wages, bonuses, and any and all other benefits due Employee, other than the consideration described in this Agreement, as well as any expenses with respect to which Employee is entitled to be reimbursed.

7. Returning Company Property. Employee agrees to deliver to the Company on or before [date], and not to keep in his possession, recreate, or deliver to anyone else, any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property provided to Employee by the Company, developed by Employee pursuant to his employment with the Company, or otherwise belonging to the Company.

8. Restrictions. Employee understands that, following the termination of his employment with Company, he must still comply with the terms of the Employment Agreement which includes a two-year non-solicitation and non-compete agreement following the termination of his employment, and provisions relating to the Confidential Information of the Company and Inventions (as such terms are defined in the Employment Agreement).

9. Non-Disparagement. The Parties agree to refrain from any defamation, libel, or slander of the other or any of the Released Parties or tortious interference with the contracts and relationships of the other Party or any of the Released Parties. The Parties further agree that each will not act in any manner that might damage the business or reputation of the other Party or any of the Released Parties. The Company agrees to respond to any request for information regarding Employee by providing only neutral information, such as Employee's dates of employment and position held.

10. No Cooperation. Employee agrees that he will not counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims,

charges, or complaints by any third party against the Company and/or any officer, director, employee, agent, representative, stockholder, or attorney of the Company and/or any other of the Released Parties, unless under a subpoena or other court order to do so.

11. Attorneys' Fees. If either Employee or the Company (including any of the Released Parties) brings an action against the other Party, or otherwise seeks to enforce this Agreement, by reason of the breach of any covenant, warranty, representation, or condition of this Agreement, or otherwise arising out of this Agreement, whether for declaratory or other relief, the action must be submitted for arbitration to the American Arbitration Association in Houston, Texas. The prevailing party in such arbitration shall be entitled to its costs and attorneys' fees.

12. Counterparts. This Agreement may be executed in separate counterparts, each of which shall be deemed an original and shall bind the signatory, but all of which together shall constitute one and the same instrument.

13. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision.

14. Costs. The Parties shall each bear their own costs, attorneys' fees, and other fees incurred in connection with this Agreement.

15. Entire Agreement. This Agreement is the entire agreement and understanding between the Parties on the subject matter covered herein. The Parties further agree that this Agreement may not be altered except in a writing duly executed by all of the Parties. The laws of the State of Texas shall govern this Agreement, excepting its principles of conflicts of law.

16. Effective Date. This Agreement is effective immediately following the Parties' execution of the Agreement, and will be enforceable following the expiration of the 7-day revocation period described below in Paragraph 17 ("Effective Date").

17. OWBPA. Under the Older Workers Benefit Protection Act of 1990, Employee acknowledges the following:

a. That Employee has been advised and is hereby advised by the Company to consult an attorney regarding this Agreement before executing it;

b. That Employee has been afforded twenty-one (21) days to consider whether he is willing to enter into it, although Employee may, in the exercise of his own discretion, sign it or reject it at any time before the expiration of the 21 days;

c. That, within seven (7) days after executing this Agreement, Employee may revoke it; and

d. That this Agreement is not enforceable until the 7-day revocation period has passed.

18. Voluntary Execution of Release Agreement. The Parties enter into this Agreement voluntarily and without any duress or undue influence on the part or behalf of the Parties hereto, with the full intent of releasing all claims. The Parties acknowledge that:

- a. They have read this Agreement;
- b. They have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of their own choice, or have knowingly waived such representation;
- c. They know and understand the terms and consequences of this Agreement and of the releases it contains; and
- d. They are fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

DATED: [date]

By: _____
[Company rep]

DATED: [date]

By: _____
[Employee]

CONFIDENTIAL SEVERANCE AND RELEASE AGREEMENT

This Confidential Severance and Release Agreement (“Agreement”) is entered into on October 12, 2017, by and between Robert Bodnar (the “Employee”) and Flotek Industries, Inc. (the “Company”).

WHEREAS, Employee was employed by Company;

WHEREAS, Employee’s employment has terminated;

WHEREAS, the Company has offered to provide Employee with a severance package to facilitate his transition from the Company as provided in Section 5 of the Employment Agreement dated as of April 1, 2016 (the “Employment Agreement”), by and between Employee and Company, contingent on the execution delivery and effectiveness of this Agreement (the “Severance”); and

WHEREAS, Employee has agreed to release the Company from any claims arising from or related to Employee’s employment relationship with the Company;

NOW THEREFORE, in consideration of the mutual promises made herein, the Company and Employee (jointly referred to as the “Parties”) hereby agree as follows:

1. **Termination.** Employee’s employment with the Company will terminate on October 7, 2017 (the “Termination Date”).
2. **Consideration.** The Company agrees to pay Employee the Severance, less applicable payroll deductions. The Company and Employee have agreed that the total of the Severance is \$558,994 payable as provided in the Employment Agreement. Provided Employee complies with his obligations pursuant to Section 7, below, Company shall pay the Severance amount in accordance with the Company’s general payroll practices as provided in the Employment Agreement, subject to required withholding. Employee acknowledges that in the absence of this Agreement, he would not be entitled to this payment.
3. **Release by Employee.** Employee, on behalf of himself and his respective past, present, and future representatives, attorneys, agents, heirs, successors and assigns, hereby releases the Company and its affiliates and their respective past, present, and future employees, directors, officers, representatives, attorneys, agents, heirs, successors and assigns, and each of them (collectively, the “Released Parties”), from any and all claims, demands, causes of action, obligations, damages, and liabilities, whether or not now known, suspected, or claimed, that Employee may possess against the Company arising from his employment up to, until, and including the Effective Date of this Agreement, other than claims, demands, causes of action, obligations, damages, and liabilities arising from the fraud or gross misconduct of the Released Parties (the “Released Claims”). Without limiting the generality of this release, Employee agrees to waive any and all Released Claims against the Released Parties arising from employment with the Company, and covenants not to sue them for any such claims including, but not limited to, those based on state or federal law regarding age, sex (including sexual harassment), religion, handicap, national origin or other discrimination, the Age Discrimination in Employment Act, the Fair Labor Standards Act (including the Equal Pay Act), the Americans with Disabilities Act, the Family and Medical Leave Act, the Employee Retirement Income Security Act, Title VII of the Civil Rights Act of 1964, the

Texas Labor Code, the Texas Administrative Code, any other applicable state or local codes or ordinances, and contract or tort claims, whether such claim be based upon an action filed by Employee or a governmental agency, and any and all claims for attorneys' fees and/or costs. The Parties agree that the release set forth in this Paragraph shall be and remain in effect in all respects as a complete and general release as to the matters released.

Nothing in this Agreement is intended to waive claims (i) for unemployment or workers' compensation benefits, (ii) for vested rights under ERISA-covered employee benefit plans as applicable on the date Employee signs this Agreement, (iii) that may arise after Employee signs this Agreement, (iv) for reimbursement of expenses under the Company's expense reimbursement policies, or (v) which cannot be released by private agreement. In addition, nothing in this Agreement including but not limited to the acknowledgments, release of claims, proprietary information, confidentiality, cooperation, and non-disparagement provisions, (x) limits or affects Employee's right to challenge the validity of this Agreement under the ADEA or the OWBPA, (y) prevents Employee from filing a charge or complaint with or from participating in an investigation or proceeding conducted by the Equal Employment Opportunity Commission, National Labor Relations Board, the Securities and Exchange Commission, or any other any federal, state or local agency charged with the enforcement of any laws, including providing documents or any other information, or (z) limits Employee from exercising rights under Section 7 of the NLRA to engage in protected, concerted activity with other employees, although by signing this Agreement Employee is waiving rights to individual relief (including backpay, frontpay, reinstatement or other legal or equitable relief) in any charge, complaint, or lawsuit or other proceeding brought by Employee or on Employee's behalf by any third party, except for any right Employee may have to receive a payment or award from a government agency (and not the Company) for information provided to the government agency or otherwise where prohibited.

This release also does not extend to any obligations incurred under this Agreement or to any obligations under the Bylaws of the Company to Employee with regard to indemnification and advancement of expenses to or for the benefit of Employee.

4. Unknown Claims. Employee expressly acknowledges that this Agreement resolves and releases all legal claims he may have against Company as of the date of this Agreement arising from his employment with the Company, including claims of which he may not be aware.

5. Non-Admission. The fact and terms of this Agreement are not an admission by the Company of liability or other wrongdoing under any law.

6. Payment of Salary. Employee acknowledges and represents that the Company has paid all salary, wages, bonuses, and any and all other benefits due Employee, other than the consideration described in this Agreement and his salary for the current pay period, as well as any expenses with respect to which Employee is entitled to be reimbursed.

7. Returning Company Property. Employee agrees to deliver to the Company on or before October 20, 2017, and not to keep in his possession, recreate, or deliver to anyone else, any and all records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, other documents provided to Employee by the Company, developed by Employee pursuant to his employment with the Company, or otherwise belonging to the Company. Notwithstanding the foregoing, Employee shall be entitled to retain the PC computer and other equipment of the Company in his possession on the date of this Agreement.

8. Restrictions. Employee understands that, following the termination of his employment with Company, he must still comply with the terms of the Employment Agreement which includes a two-year non-solicitation and non-compete agreement following the termination of his employment, and provisions relating to the Confidential Information of the Company and Inventions (as such terms are defined in the Employment Agreement).

9. Non-Disparagement. The Parties agree to refrain from any defamation, libel, or slander of the other or any of the Released Parties or tortious interference with the contracts and relationships of the other Party or any of the Released Parties. The Parties further agree that each will not act in any manner that might damage the business or reputation of the other Party or any of the Released Parties. The Company agrees to respond to any request for information regarding Employee by providing only neutral information, such as Employee's dates of employment and position held.

10. Cooperation. Employee agrees to cooperate with the Released Parties regarding any pending or subsequently filed litigation, claims or other disputes involving the Released Parties that relate to matters within the knowledge or responsibility of Employee. Without limiting the foregoing, Employee agrees (i) to meet with a Released Party's representatives, its counsel or other designees at mutually convenient times and places with respect to any items within the scope of this provision; (ii) to provide truthful testimony regarding same to any court, agency, or other adjudicatory body; and (iii) to provide the Company with notice of contact by any adverse party or such adverse party's representative, except as may be required by law. The Company will reimburse Employee for reasonable expenses in connection with the cooperation described in this paragraph.

11. Additional Consideration. The Employee shall receive family coverage at the Company's expense under the Company health insurance policy for the period following the Termination Date through June 30, 2018. Employee shall be permitted to occupy through June 30, 2018 a house leased by the Company in Houston, Texas. The terms of this Agreement shall not affect in any respect the rights of Employee with respect to contributions previously made by or with respect to the Employee pursuant to the Section 401(k) Plan of the Company or any other vested rights under ERISA-covered employee benefit plans, which shall be governed by the terms of such plan(s), as applicable on the date Employee signs this Agreement. For purposes of clarity, the Company and the Employee agree that the rights of the Employee with respect to the applicable Management Incentive Plan and Performance Unit Plans of the Company, and the 12,500 shares awarded to the Employee on or about September 21, 2016, have been forfeited, and that there are no unvested equity awards that have vested as a result of the termination of the employment of the Employee.

12. Attorneys' Fees. If either Employee or the Company (including any of the Released Parties) brings an action against the other Party, or otherwise seeks to enforce this Agreement, by reason of the breach of any covenant, warranty, representation, or condition of this Agreement, or otherwise arising out of this Agreement, whether for declaratory or other relief, the action must be submitted for arbitration to the American Arbitration Association in Houston, Texas. The prevailing party in such arbitration shall be entitled to its costs and attorneys' fees.

13. Counterparts. This Agreement may be executed in separate counterparts, each of which shall be deemed an original and shall bind the signatory, but all of which together shall constitute one and the same instrument.

14. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision.

15. Costs. The Parties shall each bear their own costs, attorneys' fees, and other fees incurred in connection with this Agreement.

16. Entire Agreement. This Agreement is the entire agreement and understanding between the Parties on the subject matter covered herein. The Parties further agree that this Agreement may not be altered except in a writing duly executed by all of the Parties. The laws of the State of Texas shall govern this Agreement, excepting its principles of conflicts of law.

17. Effective Date. This Agreement is effective immediately following the Parties' execution of the Agreement, and will be enforceable following the expiration of the 7-day revocation period described below in Paragraph 17 ("Effective Date").

18. OWBPA. Under the Older Workers Benefit Protection Act of 1990, Employee acknowledges the following:

a. That Employee has been advised and is hereby advised by the Company to consult an attorney regarding this Agreement before executing it;

b. That Employee has been afforded twenty-one (21) days to consider whether he is willing to enter into it, although Employee may, in the exercise of his own discretion, sign it or reject it at any time before the expiration of the 21 days;

c. That, within seven (7) days after executing this Agreement, Employee may revoke it by delivering a written notice of revocation to the same person as Employee returned this Agreement; and

d. That this Agreement is not enforceable until the 7-day revocation period has passed.

19. Voluntary Execution of Release Agreement. The Parties enter into this Agreement voluntarily and without any duress or undue influence on the part or behalf of the Parties hereto, with the full intent of releasing all claims. The Parties acknowledge that:

a. They have read this Agreement;

b. They have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of their own choice, or have knowingly waived such representation;

c. They know and understand the terms and consequences of this Agreement and of the releases it contains; and

d. They are fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

FLOTEK INDUSTRIES, INC.

DATED: October 12, 2017

By: _____ /s/ JOHN W. CHISHOLM
Name: _____ John W. Chisholm
Title: _____ President, Chief Executive Officer and Chairman of the Board

DATED: October 12, 2017

By: _____ /s/ ROBERT BODNAR
Robert Bodnar

SIGNATURE PAGE TO CONFIDENTIAL SEVERANCE AND RELEASE AGREEMENT

CERTIFICATION

I, John W. Chisholm, certify that:

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

/s/ JOHN W. CHISHOLM

John W. Chisholm

President, Chief Executive Officer and Chairman of the Board

Date: November 8, 2017

CERTIFICATION

I, H. Richard Walton, 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/ H. RICHARD WALTON

H. Richard Walton

Executive Vice President and Chief Financial Officer

Date: November 8, 2017

**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 September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ JOHN W. CHISHOLM

John W. Chisholm

President, Chief Executive Officer and Chairman of the Board

Date: November 8, 2017

**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 September 30, 2017, 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/ H. RICHARD WALTON

H. Richard Walton

Executive Vice President and Chief Financial Officer

Date: November 8, 2017

