

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

or

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

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



FLOTEK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of other jurisdiction of  
incorporation or organization)

90-0023731

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

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

(Address of principal executive offices)

77064

(Zip Code)

(713) 849-9911

(Registrant's telephone number, including area code)

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

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

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

None

Indicate by check mark:

- if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒
- if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒
- 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 ☐
- whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐
- whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Smaller reporting company ☒ Emerging growth company ☐

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 28, 2019 (based on the closing market price on the NYSE Composite Tape on June 28, 2019) was approximately \$150,815,000. At March 3, 2020, there were 63,275,372 outstanding shares of the registrant's common stock, \$0.0001 par value.

DOCUMENTS INCORPORATED BY REFERENCE

The information required in Part III of the Annual Report on Form 10-K is incorporated by reference to the registrant's definitive proxy statement to be filed pursuant to Regulation 14A for the registrant's 2020 Annual Meeting of Stockholders.

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this “Annual Report”), and in particular, Part II, Item 7 – “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. Forward-looking statements are not historical facts but instead represent the Company’s current assumptions and beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside the Company’s control. The forward-looking statements contained in this Annual Report are based on information available as of the date of this Annual 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 such as “anticipate,” “believe,” “estimate,” “continue,” “intend,”

“expect,” “plan,” “forecast,” “project” and similar expressions, or future-tense or conditional constructions such as “will,” “may,” “should,” “could” and “would,” or the negative thereof or other variations thereon or comparable terminology. 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 include, but are not limited to, those discussed in Part I, Item 1A – “Risk Factors” of this Annual Report and periodically in future reports filed with the Securities and Exchange Commission (the “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.

**Item 1. Business.****General**

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

The Company was originally incorporated in the Province of British Columbia on May 17, 1985. In October 2001, the Company moved the corporate domicile to Delaware and effected a 120 to 1 reverse stock split by way of a reverse merger with CESI Chemical, Inc. Since then, the Company has grown organically and through a series of acquisitions.

In December 2007, the Company’s common stock began trading on the New York Stock Exchange (“NYSE”) under the stock ticker symbol “FTK.” Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are posted to the Company’s website, [www.flotekind.com](http://www.flotekind.com), as soon as practicable subsequent to electronically filing or furnishing to the SEC. Information contained in the Company’s website is not to be considered as part of any regulatory filing. As used herein, “Flotek,” the “Company,” “we,” “our,” and “us” refers to Flotek Industries, Inc. and/or the Company’s wholly owned subsidiaries. The use of these terms is not intended to connote any particular corporate status or relationship.

**Recent Developments**

During the fourth quarter of 2018, the Company initiated a strategic plan to sell its Consumer and Industrial Chemistry Technologies, (“CICT”) segment, which was completed in the first quarter of 2019. An investment banking advisory services firm was engaged and actively marketed this segment. Effective December 31, 2018, the Company classified the assets, liabilities, and results of operations for this segment as “Discontinued Operations” for all periods presented.

During the fourth quarter of 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 and effective December 31, 2016 classified the Drilling Technologies and Production Technology segments into discontinuing operations. During 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.

**Description of Operations and Segments**

The Company’s continuing operations have one strategic business segment: Energy Chemistry Technologies (“ECT”). The CICT segment was sold in 2019, and the Drilling Technologies, and Production Technologies segments were sold in 2017 and all three are classified as discontinued operations.

The Company offers competitive products and services derived from technological advances, some of which are patented, and experience in fluid systems applications that are responsive to industry demands in both domestic and international markets. Flotek operates and/or distributes its products in seven domestic and international markets.

Financial information about operating segments and geographic concentration is provided in Note 17 – “Business Segment, Geographic and Major Customer Information” in Part II, Item 8 – “Financial Statements and Supplementary Data” of this Annual Report.

Information about the Company’s operating segment is below.

**Energy Chemistry Technologies**

The ECT segment designs, develops, manufactures, packages, distributes, delivers, and markets reservoir-centric fluid systems, including specialty and conventional chemistries, for use in oil and gas well drilling, cementing, completion, remediation, and stimulation activities designed to maximize recovery in both new and mature fields. Flotek’s specialty chemistries possess enhanced performance characteristics and are manufactured to perform in a broad range of basins and reservoirs with varying downhole pressures, temperatures and other well-specific conditions customized to customer specifications. This segment has a research and innovation laboratory and technical services laboratories that focus on design improvements, development and viability testing of new chemistry formulations, and continued enhancement of existing products. Flotek’s flagship patented chemistry technologies include Complex nano-Fluid® (“CnF® products”), Pressure reducing Fluids®, and MicroSolv™.

Chemistries branded as Complex nano-Fluid® technologies are patented both domestically and internationally and are performance additives within both oil and natural gas markets. The CnF® product mixtures are stable mixtures of plant derived oils, water, and surface active agents which organize molecules into nano structures. The combined advantage of solvents, surface active agents and water, and the resultant nano structures, improve well treatment results as compared to the independent use of solvents and surface active agents. CnF® products are composed of renewable, plant-derived ingredients and oils that are certified as biodegradable. CnF® chemistries help achieve improved operational and financial

results for the Company's customers in low permeability sand and shale reservoirs.

Chemistries branded as Pressure reducing Fluids® technologies ("PrF® products") are a patented line of high molecular weight polymers used as friction reducers that reduce turbulence and maximize the use of the polymer at a lower loading rate. The products have proven efficacy in a broad range of water quality, including high brine and high iron environments.

Introduced in April 2018, chemistries branded as MicroSoly™ are a patented line of microemulsion technologies designed to deliver cost-effective performance.

#### ***Discontinued Operations***

***Consumer and Industrial Chemistry Technologies.*** The CICT segment, reported as discontinued operations, sourced citrus oil domestically and internationally and processed citrus oils. Products produced from processed citrus oil include (1) high value compounds used as additives by companies in the flavors and fragrances markets and (2) environmentally friendly chemistries for use in the oil & gas industry and numerous other industries around the world. The CICT segment designed, developed, and manufactured products that were sold to companies in the flavor and fragrance industries and specialty chemical industry. These technologies were used within food and beverage, fragrance, and household and industrial cleaning products industries.

***Drilling Technologies.*** The Drilling Technologies segment provided downhole drilling tools for use in energy and mining activities. This segment assembled, rented, sold, inspected, and marketed specialized equipment used in energy, mining, and industrial drilling activities. Established tool rental operations were located throughout the United States (the "U.S.") and in a number of international markets.

***Production Technologies.*** The Production Technologies segment provided pumping system components, electric submersible pumps ("ESPs"), gas separators, production valves, and complementary services. Through the Company's acquisition of International Artificial Lift, LLC, the Company provided a line of next generation hydraulic pumping units that served to increase and maximize production for oil and natural gas wells.

#### **Seasonality**

Overall, operations are not significantly affected by seasonality; however, winter weather conditions can pose delays in clients' activity levels. Certain working capital components build and recede throughout the year in conjunction with established purchasing and selling cycles that can impact operations and financial position. The performance of certain services within the Company's remaining ECT segment can be susceptible to both weather and naturally occurring phenomena, including, but not limited to, the following:

- the severity and duration of winter temperatures in North America, which impacts natural gas storage levels, drilling activity, and commodity prices;
- the timing and duration of the Canadian spring thaw and resulting restrictions that impact activity levels;
- the timing and impact of hurricanes upon coastal and offshore operations; and
- the adverse weather and disease that affect citrus crops in Florida and Brazil which can negatively impact the availability of citrus oils and increase raw material costs for the ECT segment.

#### **Product Demand and Marketing**

Demand for the Company's energy chemistry products and services is dependent on levels of conventional and non-conventional oil and natural gas well drilling and completion activity, both domestically and internationally. Products in the ECT segment are marketed directly to customers through the Company's own sales force and through certain contractual agency arrangements. Established customer relationships provide repeat sales opportunities. The Company participates in industry trade shows and publishes technical papers and case studies examining the performance of its chemistries and methodologies for evaluating chemistries more effectively. While the Company's primary marketing efforts remain focused in North America, a growing amount of resources and effort are focused on emerging international markets, especially in the Middle East and North Africa ("MENA") and South America. In addition to direct marketing and relationship development, the Company also markets products and services through the use of third party agents primarily in international markets.

#### **Customers**

The Company's customers primarily include major integrated oil and natural gas companies, oilfield service companies, independent oil and natural gas companies, pressure pumping service companies, and national and state-owned oil companies. Within the ECT segment, the Company had two major customers for the year ended December 31, 2019, which accounted for 20% and 10%, respectively, of consolidated revenue, two major customers for the year ended December 31, 2018, which accounted for 12% and 10%, respectively, of consolidated revenue, and one major customer for the year ended December 31, 2017, which accounted for 17% of consolidated revenue. In aggregate, the Company's largest three customers collectively accounted for 40%, 30%, and 32% of consolidated revenue for the years ended December 31, 2019, 2018, and 2017, respectively.

## **Research and Innovation**

The Company is engaged in research and innovation activities focused on the design of reservoir specific, customized chemistries in the ECT segment. In this segment, for the years ended December 31, 2019, 2018, and 2017, the Company incurred \$8.9 million, \$10.4 million, and \$13.1 million, respectively, of research and innovation expense. In 2019, research and innovation expense was approximately 7.4% of consolidated revenue. The Company expects that its 2020 research and innovation investment will continue to remain a significant portion of overall spending to support new product development and customization initiatives for its clients.

## **Backlog**

Due to the nature of the Company's contractual customer relationships and the way they operate, the Company has historically not had significant backlog order activity.

## **Intellectual Property**

The Company's policy is to protect its intellectual property, both within and outside of the U.S. The Company considers patent protection for all products and methods deemed to have commercial significance and that may qualify for patent protection. The decision to pursue patent protection is

dependent upon several factors, including whether patent protection can be obtained, cost effectiveness, and alignment with operational and commercial interests. The Company believes its patent and trademark portfolio, combined with confidentiality agreements, trade secrets, proprietary designs, and manufacturing and operational expertise, are necessary and appropriate to protect its intellectual property and ensure continued strategic advantage. Within its continuing operations, the Company has 82 granted patents and approximately 50 pending patent applications filed in the U.S. and abroad, covering various chemical compositions and methods of use. In addition, within its continuing operations, the Company has 60 registered trademarks in the U.S. and abroad, covering a variety of its goods and services.

## **Competition**

The ability to compete in the oilfield services industry is dependent upon the Company's ability to differentiate its products and services, provide superior quality and service, and maintain a competitive cost structure with sufficient raw material supplies. Activity levels in the oil field goods and services industry are impacted by current and expected oil and natural gas prices, oil and natural gas drilling activity, production levels, and customer drilling and completion designated capital spending. Domestic and international regions in which Flotek operates are highly competitive. The unpredictability of the energy industry and commodity price fluctuations creates both increased risk and opportunity for the products and services of both the Company and its competitors.

Certain oil and natural gas service companies competing with the Company are larger and have access to more resources. Such competitors could be better situated to withstand industry downturns, compete on the basis of price, and acquire and develop new equipment and technologies, all of which could affect the Company's revenue and profitability. Oil and natural gas service companies also compete for customers and strategic business opportunities. Thus, competition could have a detrimental impact on the Company's business.

## **Raw Materials**

Materials and components used in the Company's servicing and manufacturing operations, as well as those purchased for sale, are generally available on the open market from multiple sources. When able, the Company uses multiple suppliers, both domestically and internationally, to purchase raw materials on the open market. The prices paid for raw materials vary based on energy, citrus, and other commodity price fluctuations, tariffs, duties on imported materials, foreign currency exchange rates, business cycle position, and global demand. Higher prices for chemistries, citrus, polymers, and other raw materials could adversely impact future sales and contract fulfillments.

Citrus-based terpene (d-limonene) is an important feedstock for many of the Company's formulations. In addition, the Company utilizes naturally derived terpenes from other sources and bio-based solvents from other natural sources.

The Company is diligent in its efforts to identify alternate suppliers in its contingency planning for potential supply shortages and in its proactive efforts to reduce costs through competitive bidding practices.

## **Government Regulations**

The Company is subject to federal, state, and local laws and regulations, including laws related to the environment, occupational safety, health, transportation, and trade within the U.S. and other countries in which the Company does business. These laws and regulations strictly govern the manufacture, storage, transportation, sale, use, and disposal of chemistry products. The Company strives to ensure full compliance with all regulatory requirements and is unaware of any material instances of noncompliance.

The Company continually evaluates the environmental impact of its operations and attempts to identify potential liabilities and costs of any environmental remediation, litigation, or associated claims. Several products of the ECT and discontinued CICT segments are considered hazardous materials. In the event of a leak or spill in association with Company operations, the Company could be exposed to risk of material cost, net of insurance proceeds, to remediate any contamination. No environmental claims are currently being litigated, and the Company does not expect that costs related to remediation requirements will have a significant adverse effect on the Company's consolidated financial position or results of operations.

## **Employees**

At December 31, 2019, the Company had 174 employees, exclusive of existing worldwide agency relationships. None of the Company's employees are covered by a collective bargaining agreement and labor relations are generally positive. Certain international locations have staffing or work arrangements that are contingent upon local work councils or other regulatory approvals.

## **Available Information and Website**

The Company's website is accessible at [www.flotekind.com](http://www.flotekind.com). Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available (see the "Investor Relations" section of the Company's website), as soon as reasonably practicable, subsequent to electronically filing or otherwise providing reports to the SEC. Corporate governance materials, guidelines, by laws, and code of business conduct and ethics are also available on the website. A copy of corporate governance materials is available upon written request to the Company.

The SEC maintains the [www.sec.gov](http://www.sec.gov) website, which contains reports, proxy and information statements, and other registrant information filed electronically with the SEC.

The Annual Chief Executive Officer Certification required by the NYSE was submitted on June 21, 2019. The certification was not qualified in any respect. Additionally, the Company has filed all principal executive officer and financial officer certifications as required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 with this Annual Report. Information with respect to the Company's executive officers and directors is incorporated herein by reference to information to be included in the proxy statement for the Company's 2020 Annual Meeting of Stockholders.

The Company has disclosed and will continue to disclose any changes or amendments to the Company's code of business conduct and ethics as well as waivers to the code of ethics applicable to executive management by posting such changes or waivers on the Company's website.

## **Item 1A. Risk Factors.**

The Company's business, financial condition, results of operations, and cash flows are subject to various risks and uncertainties. Readers of this report should not consider any descriptions of these risk factors to be a complete set of all potential risks that could affect Flotek. These factors should be carefully considered together with the other information contained in this Report and the other reports and materials filed by the Company with the SEC. Further, many of these risks are interrelated and, as a result, the occurrence of certain risks could trigger and/or exacerbate other risks. Such a combination could materially increase the severity of the impact of these risks on the Company's business, results of operations, financial condition, or liquidity.

This Annual Report contains "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements discuss Company prospects, expected revenue, expenses and profits, strategic and operational initiatives, and other activities. Forward-looking statements also contain suppositions regarding future oil and natural gas industry conditions, both domestically and internationally. The Company's results could differ materially from those anticipated in the forward-looking statements as a result of a variety of factors, including risks described below and elsewhere. See "Forward-Looking Statements" at the beginning of this Annual Report.

### **Risks Related to the Company's Business**

***The Company's business is largely dependent upon domestic and international oil and natural gas industry spending.***

***Spending could be adversely affected by industry conditions or by new or increased governmental regulations, global economic conditions, the availability of credit, and lower oil and natural gas prices. All of these factors are beyond the Company's control. The resulting reductions in customers' expenditures could have a significant adverse effect on Company revenue, margins, and overall operating results.***

The Company's ECT segment is dependent upon customers' willingness to make operating and capital expenditures for exploration, development and production of oil and natural gas in both North American and global markets. Customers' expectations of a decline in future oil and natural gas market prices could result in curtailed spending, thereby reducing demand for the Company's products and services. Industry conditions are influenced by numerous factors over which the Company has no control, including the supply of and demand for oil and natural gas, domestic and international economic conditions, political instability in oil and natural gas producing countries and merger and divestiture activity among oil and natural gas producers and service companies.

The price for oil and natural gas is subject to a variety of factors, including, but not limited to:

- global demand for energy as a result of population growth, economic development, and general economic and business conditions;
- the ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels and the impact of non-OPEC producers on global supply;

- availability and quantity of natural gas storage;
- import and export volumes and pricing of liquefied natural gas;
- pipeline capacity to critical markets and out of producing regions;
- political and economic uncertainty and socio-political unrest;
- cost of exploration, production and transport of oil and natural gas;
- technological advances impacting energy production and consumption; and
- weather conditions.

The volatility of oil and natural gas prices and the consequential effect on exploration and production activity could adversely impact the activity levels of the Company's customers.

Volatile economic conditions could weaken customer exploration and production expenditures, causing reduced demand for the Company's products and services and a significant adverse effect on the Company's operating results. It is difficult to predict the pace of industry growth, the direction of oil and natural gas prices, the direction and magnitude of economic activity, and to what extent these conditions could affect the Company. However, reduced cash flow and capital availability could adversely impact the financial condition of the Company's customers, which could result in customer project modifications, delays or cancellations, general business disruptions, and delay in, or nonpayment of, amounts that are owed to the Company. This could cause a negative impact on the Company's results of operations and cash flows.

Furthermore, if certain of the Company's suppliers were to experience significant cash flow constraints or become insolvent as a result of such conditions, a reduction or interruption in supplies or a significant increase in the price of supplies could occur, adversely impacting the Company's results of operations and cash flows.

***The Company's reliance on unconventional oil production could lessen the positive effects of a general recovery of the oil and gas industry.***

The majority of the Company's current product offerings are used in unconventional oil and gas plays. The Company has little to no exposure to conventional or offshore sectors. In the event that an industry recovery is disproportionately driven by conventional and offshore oil and gas plays, the Company may not have a resulting increase in its operational results.

***The Company's inability to develop and/or introduce new products or differentiate existing products could have an adverse effect on its ability to be responsive to customers' needs and could result in a loss of customers, as well as adversely affecting the Company's future success and profitability.***

The oil and natural gas industry is characterized by technological advancements that have historically resulted in, and will likely continue to result in, substantial improvements in the scope and quality of oilfield chemistries and their function and performance. Consequently, the Company's future success is dependent, in part, upon the Company's continued ability to timely develop innovative products and services. Increasingly sophisticated customer needs and the ability to anticipate and respond to technological and operational advances in the oil and natural gas industry is critical. Proving up new technology requires time and resources, and there is no assurance that the Company will be able to commercialize new technology in a timely manner. If the Company fails to successfully develop and introduce innovative products and services that appeal to customers, or if existing or new market competitors develop superior products and services, the Company's revenue and profitability could deteriorate.

***Increased competition could exert downward pressure on prices charged for the Company's products and services.***

The Company operates in a competitive environment characterized by large and small competitors. Competitors with greater resources and lower cost structures or who are trying to gain market share may be successful in providing competing products and services to the Company's customers at lower prices than the Company currently charges. Employees of the Company may leave and compete directly with the Company. This may require the Company to lower its prices, resulting in an adverse impact on revenues, margins, and operating results.

***If the Company is unable to adequately protect intellectual property rights or is found to infringe upon the intellectual property rights of others, the Company's business is likely to be adversely affected.***

The Company relies on a combination of patents, trademarks, copyrights, trade secrets, non-disclosure agreements, and other security measures to establish and protect the Company's intellectual property rights. Although the Company believes that existing measures are reasonably adequate to protect intellectual property rights, there is no assurance that the measures taken will prevent misappropriation of proprietary information or dissuade others from independent development of similar products or services. Moreover, there is no assurance that the Company will be able to prevent competitors from copying, reverse engineering, modifying, or otherwise obtaining and/or using the Company's technology and proprietary rights to create competitive products or services. The Company may not be able to enforce intellectual property rights outside of the U.S. Additionally, the laws of certain countries in which the Company's products and services are manufactured or marketed may not protect the Company's proprietary rights to the same extent as do the laws of the U.S. Furthermore, other third parties may infringe, challenge, invalidate, or circumvent the Company's patents, trademarks, copyrights and trade secrets. In each case, the Company's ability to compete could be significantly impaired.

A portion of the Company's products and services are without patent protection. The issuance of a patent does not guarantee validity or enforceability. The Company's patents may not necessarily be valid or enforceable against third parties. The issuance of a patent does not guarantee that the Company has the right to use the patented invention. Third parties may have blocking patents that could be used to prevent the Company from marketing the Company's own patented products and services and utilizing the Company's patented technology.

The Company is exposed and, in the future, may be exposed to allegations of patent and other intellectual property infringement from others. The Company may allege infringement of its patents and other intellectual property rights against others. Under either scenario, the Company could become involved in costly litigation or other legal proceedings regarding its patent or other intellectual property rights, from both an enforcement and defensive standpoint. Even if the Company chooses to enforce its patent or other intellectual property rights against a third party, there may be risk that the Company's patent or other intellectual property rights become invalidated or otherwise unenforceable through legal proceedings. If intellectual property infringement claims are asserted against the Company, the Company could defend itself from such assertions or could seek to obtain a license under the third party's intellectual property rights in order to mitigate exposure. In the event the Company cannot obtain a license, third parties could file lawsuits or other legal proceedings against the Company, seeking damages (including treble damages) or an injunction against the manufacture, use, sale, offer for sale, or importation of the Company's products and services. These could result in the Company having to discontinue the use, manufacture, and sale of certain products and services, increase the cost of selling certain products and services, or result in damage to the Company's reputation. An award of damages, including material royalty payments, or the entry of an injunction order against the use, manufacture, and sale of any of the Company's products and services found to be infringing, could have an adverse effect on the Company's results of operations and ability to compete.

***The loss of key customers could have an adverse impact on the Company's results of operations and could result in a decline in the Company's revenue.***

The Company has critical customer relationships which are dependent upon production and development activity related to a handful of customers. In the continuing operations segment reported, revenue derived from the Company's three largest customers as a percentage of consolidated revenue for the years ended December 31, 2019, 2018, and 2017, totaled 40%, 30%, and 32%, respectively. Customer relationships are historically governed by purchase orders or other short-term contractual obligations as opposed to long-term contracts. The loss of one or more key customers could have an adverse effect on the Company's results of operations and could result in a decline in the Company's revenue.

***Loss of key suppliers, the inability to secure raw materials on a timely basis, or the Company's inability to pass commodity price increases on to customers could have an adverse effect on the Company's ability to service customers' needs and could result in a loss of customers.***

Materials used in servicing and manufacturing operations, as well as those purchased for sale, are generally available on the open market from multiple sources. Acquisition costs and transportation of raw materials to Company facilities have historically been impacted by extreme weather conditions. Certain raw materials used by the ECT segment are available only from limited sources; accordingly, any disruptions to critical suppliers' operations could adversely impact the Company's operations. Prices paid for raw materials could be affected by energy products and other commodity prices; weather and disease associated with the Company's crop dependent raw materials, specifically citrus greening; tariffs and duties on imported materials; foreign currency exchange rates; and phases of the general business cycle and global demand. The ECT segment secures short and long term supply agreements for critical raw materials from both domestic and international vendors.

The prices of key raw materials are subject to market fluctuations, which at times can be significant and unpredictable. Availability of key raw materials weather events, natural disasters and health epidemics in countries from which the Company sources its raw materials may impact prices. The Company may be unable to pass along price increases to its customers, which could result in an adverse impact on margins and operating profits. The Company currently uses purchasing strategies designed, where possible, to align the timing of customer demand with our supply commitments. However, the Company currently does not hedge commodity prices, but may consider such strategies in the future, and there is no guarantee that the Company's purchasing strategies will prevent cost increases from resulting in adverse impacts on margins and operating profits.

***The Company depends on a single-source supplier for citrus terpene, and the loss of this supplier could significantly harm the Company's business, financial condition, and results of operations.***

Citrus-based terpene (d-limonene) is an important feedstock for many of the Company's formulations. In February 2019, the Company entered into a terpene Supply Agreement (the "Supply Agreement") with Flotek's former subsidiary, Florida Chemical Company, LLC ("FCC"), to serve as the Company's supplier of terpene. The Company depends on FCC to provide it with terpene in a timely manner that meets its quality, quantity, and cost requirements. FCC may encounter problems that preclude it from supplying terpene on the terms set forth in the Supply Agreement, including with respect to pricing and production volumes. In the event that FCC encounters such problems or otherwise breaches the Supply Agreement, the Company's inability to contract with alternative sources could result in a prolonged interruption in its ability to produce the Company's formulations. Any such delays or interruptions

could ultimately result in a significant increase in the price of the various formulations or a significant reduction in the Company's margins on these formulations, which could adversely affect the Company's business, financial condition, and results of operations.

***If the Company loses the services of key members of management, the Company may not be able to manage operations and implement growth strategies.***

The Company depends on the continued service of the Chief Executive Officer and President, the Chief Financial Officer and other key members of the executive management team, who possess significant expertise and knowledge of the Company's business and industry. Furthermore, the Chief Executive Officer and President serves as Chairman of the Board of Directors. The Company has entered into employment agreements with certain of these key members; however, at December 31, 2019, the Company only carried key man life insurance for the Chief Executive Officer and President. Any loss or interruption of the services of key members of the Company's management could significantly reduce the Company's ability to manage operations effectively and implement strategic business initiatives.

***Removal of members of management or directors may be difficult or costly.***

The Company's management, employees and directors may have retention, employment or severance agreements in place. In the event that our employees, management or directors do not have the proper skills for management or operation of the Company, or the Company otherwise wishes to remove them from their position(s), the Company may be required to pay severance or similar payments. Removal of some management and employees by the Company may also be difficult and require negotiations by the Company.

***Failure to maintain effective disclosure controls and procedures and internal controls over financial reporting could have an adverse effect on the Company's operations and the trading price of the Company's common stock.***

Effective internal controls are necessary for the Company to provide reliable financial reports, effectively prevent fraud and operate successfully as a public company. If the Company cannot provide reliable financial reports or effectively prevent fraud, the Company's reputation and operating results could be harmed. If the Company is unable to maintain effective disclosure controls and procedures and internal controls over financial reporting, the Company may not be able to provide reliable financial reports, which in turn could affect the Company's operating results or cause the Company to fail to meet its reporting obligations. Ineffective internal controls could also cause investors to lose confidence in reported financial information, which could negatively affect the trading price of the Company's common stock, limit the ability of the Company to access capital markets in the future, and require additional costs to improve internal control systems and procedures.

***Network disruptions, security threats and activity related to global cyber-crime pose risks to the Company's key operational, reporting and communication systems.***

The Company relies on access to information systems for its operations. Failures of, or interference with, access to these systems, such as network communications disruptions, could have an adverse effect on our ability to conduct operations and could directly impact consolidated reporting. Phishing attacks could result in sensitive or confidential information being released by the Company. Security breaches pose a risk to confidential data and intellectual property, which could result in damages to our competitiveness and reputation. The Company's policies and procedures, system monitoring and data back-up processes may not prevent or mitigate the effects of these potential disruptions or breaches. There can be no assurance that existing or emerging threats will not have an adverse impact on our systems or communications networks.

***The Company may pursue strategic acquisitions, joint ventures, and strategic divestitures, which could have an adverse impact on the Company's business.***

The Company's past and potential future acquisitions, joint ventures, and divestitures involve risks that could adversely affect the Company's business. Negotiations of potential acquisitions, joint ventures, or other strategic relationships, integration of newly acquired businesses, and/or sales of existing businesses could be time consuming and divert management's attention from other business concerns. Acquisitions and joint ventures could also expose the Company to unforeseen liabilities or risks associated with new markets or businesses. Unforeseen operational difficulties related to acquisitions and joint ventures could result in diminished financial performance or require a disproportionate amount of the Company's management's attention and resources. Additionally, acquisitions could result in the commitment of capital resources without the realization of anticipated returns. Divestitures could result in the loss of future earnings without adequate compensation and the loss of unrealized strategic opportunities.

***Failure to manage the Company's costs during the current period of retraction may have a negative effect on the Company's ability to reach profitability.***

The Company has been in a period of rapid retraction, has sold or discontinued all but one operating segment, and is in the process of adjusting costs and expenses to match its new smaller size. If the Company does not manage its costs and expenses properly, it may not be able to reach profitability.

***If the Company does not manage the potential difficulties associated with expansion successfully, the Company's operating results could be adversely affected.***

The Company believes future success will depend, in part, on the Company's ability to adapt to market opportunities and changes, to successfully integrate the operations of any businesses acquired, expansion of existing product and service

lines, and potentially expand into new product and service areas in which the Company may not have prior experience. Factors that could result in strategic business difficulties include, but are not limited to:

- failure to effectively integrate acquisitions, joint ventures or strategic alliances;
- failure to effectively plan for risks associated with expansion into areas in which management lacks prior experience;
- lack of experienced management personnel;
- increased administrative burdens;
- lack of customer retention;
- technological obsolescence; and
- infrastructure, technological, communication and logistical problems associated with large, expansive operations.

If the Company fails to manage potential difficulties successfully, the Company's operating results could be adversely impacted.

***The Company's ability to grow and compete could be adversely affected if adequate capital is not available.***

The ability of the Company to grow and be competitive in the market place is dependent on the availability of adequate capital. Access to capital is dependent, in large part, on the Company's cash flows and the availability of and access to equity and debt financing. The Company cannot guarantee that internally generated cash flows will be sufficient, or that the Company will be able to obtain equity or debt financing on acceptable terms, or at all. As a result, the Company may not be able to finance strategic growth plans, take advantage of business opportunities, or to respond to competitive pressures. The Company's existing shelf registration statement expires in September 2020, and there is no guarantee that the Company will file a new shelf registration statement.

***Failure to adapt to changing buying habits at the Company's potential and existing customers could have a negative effect on the Company's ability to attract and retain business.***

The demographics and habits of the purchasing departments of many of the Company's customers and potential customers is changing. Key decision makers are younger and show different buying habits and approaches. Customers are increasingly using advanced analytics to make purchasing decisions. If the Company does not adapt to these changing purchasing trends, the Company may not be able to attract or retain business.

***Failure to collect for goods and services sold to key customers could have an adverse effect on the Company's financial results, liquidity and cash flows.***

The Company performs credit analyses on potential customers; however, credit analysis does not provide full assurance that customers will be willing and/or able to pay for goods and services purchased from the Company.

Furthermore, collectability of international sales can be subject to the laws of foreign countries, which may provide more limited protection to the Company in the event of a dispute over payment. Because sales to domestic and international customers are generally made on an unsecured basis, there can be no assurance of collectability. If one or more major customers are unwilling or unable to pay its debts to the Company, it could have an adverse effect of the Company's financial results, liquidity and cash flows.

***Unforeseen contingencies such as litigation could adversely affect the Company's financial condition.***

The Company is, and from time to time may become, a party to legal proceedings incidental to the Company's business involving alleged injuries arising from the use of Company products, exposure to hazardous substances, patent infringement, employment matters, commercial disputes, and shareholder lawsuits. The defense of these lawsuits may require significant expenses, divert management's attention, and may require the Company to pay damages that could adversely affect the Company's financial condition. In addition, any insurance or indemnification rights that the Company may have may be insufficient or unavailable to protect against potential loss exposures.

***The Company's current insurance policies may not adequately protect the Company's business from all potential risks.***

The Company's operations are subject to risks inherent in the oil and natural gas industry, such as, but not limited to, accidents, blowouts, explosions, fires, severe weather, oil and chemical spills, and other hazards. These conditions can result in personal injury or loss of life, damage to property, equipment and the environment, as well as suspension of customers' oil and gas operations. These events could result in damages requiring costly repairs, the interruption of Company business, including the loss of revenue and profits, and/or the Company being named as a defendant in lawsuits asserting large claims. The Company does not have insurance against all foreseeable risks. Consequently, losses and liabilities arising from uninsured or underinsured events could have an adverse effect on the Company's business, financial condition, and results of operations.

***Regulatory pressures, environmental activism, and legislation could result in reduced demand for the Company's products and services, increase the Company's costs, and adversely affect the Company's business, financial condition, and results of operations.***

Regulations restricting volatile organic compounds ("VOC") exist in many states and/or communities which limit demand for certain products. Although citrus oil is considered a VOC, its health, safety, and environmental profile is preferred over other solvents (e.g., BTEX), which is currently creating new market opportunities around the world. Changes in the perception of citrus oils as a preferred VOC, increased consumer activism against hydraulic fracturing or other

regulatory or legislative actions by governments could potentially result in materially reduced demand for the Company's products and services and could adversely affect the Company's business, financial condition, and results of operations.

***The Company is subject to complex foreign, federal, state, and local environmental, health, and safety laws and regulations, which expose the Company to liabilities that could adversely affect the Company's business, financial condition, and results of operations.***

The Company's operations are subject to foreign, federal, state, and local laws and regulations related to, among other things, the protection of natural resources, injury, health and safety considerations, chemical exposure assessment, waste management, and transportation of waste and other hazardous materials. The Company's operations expose the Company to risks of environmental liability that could result in fines, penalties, remediation, property damage, and personal injury liability. In order to remain compliant with laws and regulations, the Company maintains permits, authorizations, registrations, and certificates as required from regulatory authorities. Sanctions for noncompliance with such laws and regulations could include assessment of administrative, civil and criminal penalties, revocation of permits, and issuance of corrective action orders.

The Company could incur substantial costs to ensure compliance with existing and future laws and regulations. Laws protecting the environment have generally become more stringent and are expected to continue to evolve and become more complex and restrictive into the future. Failure to comply with applicable laws and regulations could result in material expense associated with future environmental compliance and remediation. The Company's costs of compliance could also increase if existing laws and regulations are amended or reinterpreted. Such amendments or reinterpretations of existing laws or regulations, or the adoption of new laws or regulations, could curtail exploratory or developmental drilling for, and production of, oil and natural gas which, in turn, could limit demand for the Company's products and services. Some environmental laws and regulations could also impose joint and strict liability, meaning that the Company could be exposed in certain situations to increased liabilities as a result of the Company's conduct that was lawful at the time it occurred or conduct of, or conditions caused by, prior operators or other third parties. Remediation expense and other damages arising as a result of such laws and regulations could be substantial and have a material adverse effect on the Company's financial condition and results of operations.

***Changes in law and regulation relating to hydraulic fracturing may have a negative effect on the Company's operations.***

Much of the Company's revenue is derived from customers engaged in hydraulic fracturing services, a process that creates fractures extending from the well bore through the rock formation to enable natural gas or oil to flow more easily

through the rock pores to a production well. Some states have adopted regulations which require operators to publicly disclose certain non-proprietary information. These regulations could require the reporting and public disclosure of the Company's proprietary chemistry formulas. In addition, several presidential candidates have proposed additional restrictions on hydraulic fracturing. The adoption of any future federal or state laws or local requirements, or the implementation of regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process, could increase the difficulty of oil and natural gas well production activity and could have an adverse effect on the Company's future results of operations.

***Regulation of greenhouse gases and/or climate change could have a negative impact on the Company's business.***

Certain scientific studies have suggested that emissions of certain gases, commonly referred to as "greenhouse gases," which include carbon dioxide, methane, and other volatile organic compounds, may be contributory to the warming effect of the Earth's atmosphere and other climatic changes. In response to such studies, the issue of climate change and the effect of greenhouse gas emissions, in particular emissions from fossil fuels, is attracting increasing worldwide attention.

Existing or future laws, regulations, treaties, or international agreements related to greenhouse gases, climate change, and indoor air quality, including energy conservation or alternative energy incentives, could have a negative impact on the Company's operations, if regulations resulted in a reduction in worldwide demand for oil and natural gas. Other results could be increased compliance costs and additional operating restrictions, each of which could have a negative impact on the Company's operations.

***The Company and the Company's customers are subject to risks associated with doing business outside of the U.S., including political risk, foreign exchange risk, and other uncertainties.***

The Company and its customers are subject to risks inherent in doing business outside of the U.S., including, but not limited to:

- governmental instability;
- corruption;
- war and other international conflicts;
- civil and labor disturbances;
- requirements of local ownership;
- cartel behavior;
- partial or total expropriation or nationalization;
- currency devaluation; and
- foreign laws and policies, each of which can limit the movement of assets or funds or result in the deprivation of contractual rights or appropriation of property without fair compensation.

Collections from international customers and agents could also prove difficult due to inherent uncertainties in foreign law and judicial procedures. The Company could experience significant difficulty with collections or recovery due to the political or judicial climate in foreign countries where Company operations occur or in which the Company's products are used.

The Company's international operations must be compliant with the Foreign Corrupt Practices Act (the "FCPA") and other applicable U.S. laws. The Company could become liable under these laws for actions taken by employees or agents. Compliance with international laws and regulations could become more complex and expensive thereby creating increased risk as the Company's international business portfolio grows. Further, the U.S. periodically enacts laws and imposes regulations prohibiting or restricting trade with certain nations. The U.S. government could also change these laws or enact new laws that could restrict or prohibit the Company from doing business in identified foreign countries. The Company conducts, and will continue to conduct, business in currencies other than the U.S. dollar. Historically, the Company has not hedged against foreign currency fluctuations. Accordingly, the Company's profitability could be affected by fluctuations in foreign exchange rates.

The Company has no control over and can provide no assurances that future laws and regulations will not materially impact the Company's ability to conduct international business.

***The Company's tax returns are subject to audit by tax authorities. Taxing authorities may make claims for back taxes, interest, and penalties.***

The Company is subject to income, property, excise, employment, and other taxes in the U.S. and a variety of other jurisdictions around the world. Tax rules and regulations in the U.S. and around the world are complex and subject to interpretation. From time to time, taxing authorities conduct audits of the Company's tax filings and may make claims for increased taxes and, in some cases, assess interest and penalties. The assessments for back taxes, interest, and penalties could be significant. If the Company is unsuccessful in contesting these claims, the resulting payments could result in a drain on the Company's capital resources and liquidity.

***Recent U.S. tax legislation, as well as future U.S. tax legislation, may adversely affect our business, results of operations, financial condition and cash flow.***

Comprehensive tax reform legislation enacted in December 2017, commonly referred to as the Tax Cuts and Jobs Act (the "2017 Tax Act"), made significant changes to U.S. federal income 2017 tax laws. The 2017 Tax Act, among other things, reduced the corporate income tax rate to 21%, partially limits the deductibility of business interest expense and net operating losses, imposed a one-time tax on unrepatriated earnings from certain foreign subsidiaries, taxes offshore earnings at reduced rates regardless of whether they are repatriated and allows the

immediate deduction of certain new investments instead of deductions for depreciation expense over time. The 2017 Tax Act is complex and far-reaching, and the Company continues to evaluate the actual impact of its enactment on the Company. There may be material adverse effects resulting from the 2017 Tax Act that have not been identified and that could have an adverse effect on the Company's business, results of operations, financial condition and cash flow.

### **Risks Related to the Company's Industry**

***General economic declines (recessions), limits to credit availability, and industry specific factors could have an adverse effect on energy industry activity resulting in lower demand for the Company's products and services.***

Worldwide economic uncertainty can reduce the availability of liquidity and credit markets to fund the continuation and expansion of industrial business operations worldwide. The shortage of liquidity and credit combined with pressure on worldwide equity markets could continue to impact the worldwide economic climate. Geopolitical unrest around the world may also impact demand for the Company's products and services both domestically and internationally.

Demand for the Company's ECT segment's products and services is dependent on oil and natural gas industry activity and expenditure levels that are directly affected by trends in oil and natural gas prices. Demand for the Company's products and services is particularly sensitive to levels of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, including national oil companies. One indication of drilling and completion activity and spending is rig count, which the Company monitors to gauge market conditions. In addition, the U.S. Energy Information Administration ("EIA") and other industry data sources report completion activity which is utilized by the Company. Any prolonged reduction in oil and natural gas prices or drop in rig and/or completion count could depress current levels of exploration, development, and production activity. Perceptions of longer-term lower oil and natural gas prices by oil and natural gas companies could similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Lower levels of activity could result in a corresponding decline in the demand for the Company's oil and natural gas well products and services, which could have a material adverse effect on the Company's revenue and profitability.

Events in global credit markets can significantly impact the availability of credit and associated financing costs for many of the Company's customers. Many of the Company's customers finance their drilling and completion programs through third-party lenders or public debt offerings. Lack of available credit or increased costs of borrowing could cause customers to reduce spending on drilling programs, thereby reducing demand and potentially resulting in lower prices for the Company's products and services. Also, the credit and economic environment could significantly impact the

financial condition of some customers over a prolonged period, leading to business disruptions and restricted ability to pay for the Company's products and services. The Company's forward-looking statements assume that the Company's lenders, insurers, and other financial institutions will be able to fulfill their obligations under various credit agreements, insurance policies, and contracts. If any of the Company's significant lenders, insurers and others are unable to perform under such agreements, and if the Company was unable to find suitable replacements at a reasonable cost, the Company's results of operations, liquidity, and cash flows could be adversely impacted.

***A continuing period of depressed oil and natural gas prices could result in further reductions in demand for the Company's products and services and adversely affect the Company's business, financial condition, and results of operations.***

The markets for oil and natural gas have historically been volatile. Such volatility in oil and natural gas prices, or the perception by the Company's customers of unpredictability in oil and natural gas prices, could adversely affect spending levels. The oil and natural gas markets may be volatile in the future. The demand for the Company's products and services is, in large part, driven by general levels of exploration and production spending and drilling activity by its customers. Future declines in oil or natural gas prices could adversely affect the Company's business, financial condition, and results of operations.

***New and existing competitors within the Company's industry could have an adverse effect on results of operations.***

The oil and natural gas industry is highly competitive. The Company's principal competitors include numerous small companies capable of competing effectively in the Company's markets on a local basis, as well as a number of large companies that possess substantially greater financial and other resources than does the Company. Larger competitors may be able to devote greater resources to developing, promoting, and selling products and services. The Company may also face increased competition due to the entry of new competitors including current suppliers that decide to sell their products and services directly to the Company's customers. As a result of this competition, the Company could experience lower sales or greater operating costs, which could have an adverse effect on the Company's margins and results of operations.

***The Company's industry has a high rate of employee turnover. Difficulty attracting or retaining personnel or agents could adversely affect the Company's business.***

The Company operates in an industry that has historically been highly competitive in securing qualified personnel with the required technical skills and experience. The Company's services require skilled personnel able to perform physically demanding work. Due to industry volatility, the demanding nature of the work, and the need for industry specific

knowledge and technical skills, current employees could choose to pursue employment opportunities outside the Company that offer a more desirable work environment and/or higher compensation than is offered by the Company. As a result of these competitive labor conditions, the Company may not be able to find qualified labor, which could limit the Company's growth. In addition, the cost of attracting and retaining qualified personnel has increased over the past several years due to competitive pressures. In order to attract and retain qualified personnel, the Company may be required to offer increased wages and benefits. If the Company is unable to increase the prices of products and services to compensate for increases in compensation, or is unable to attract and retain qualified personnel, operating results could be adversely affected.

***Severe weather could have an adverse impact on the Company's business.***

The Company's business could be materially and adversely affected by severe weather conditions. Hurricanes, tropical storms, flash floods, blizzards, cold weather, and other severe weather conditions could result in curtailment of services, damage to equipment and facilities, interruption in transportation of products and materials, and loss of productivity. If the Company's customers are unable to operate or are required to reduce operations due to severe weather conditions, and as a result curtail purchases of the Company's products and services, the Company's business could be adversely affected.

***A terrorist attack or armed conflict could harm the Company's business.***

Terrorist activities, anti-terrorist efforts, and other armed conflicts involving the U.S. could adversely affect the U.S. and global economies and could prevent the Company from meeting financial and other obligations. The Company could experience loss of business, delays or defaults in payments from payors, or disruptions of fuel supplies and markets if pipelines, production facilities, processing plants, or refineries are direct targets or indirect casualties of an act of terror or war. Such activities could reduce the overall demand for oil and natural gas which, in turn, could also reduce the demand for the Company's products and services. Terrorist activities and the threat of potential terrorist activities and any resulting economic downturn could adversely affect the Company's results of operations, impair the ability to raise capital, or otherwise adversely impact the Company's ability to realize certain business strategies.

***The Company may be adversely affected by the recent coronavirus outbreak.***

In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China. While we do not have any operations in China, our operations could be adversely affected to the extent that coronavirus or any other epidemic harms world economy in general and global demand for oil and gas in particular. Our operations may experience

disruptions in the event of a global pandemic or restriction on travel that results from a global pandemic, which may materially and adversely affect our business, financial condition and results of operations. The duration of the business disruption and related financial impact cannot be reasonably estimated at this time but may materially affect our ability to operate our business and result in additional costs. The extent to which the coronavirus or other health epidemic may impact our results will depend on future developments, which are highly uncertain and cannot be predicted.

### **Risks Related to the Company's Securities**

***The market price of the Company's common stock has been and may continue to be volatile.***

The market price of the Company's common stock has historically been subject to significant fluctuations. The following factors, among others, could cause the price of the Company's common stock to fluctuate due to:

- variations in the Company's quarterly results of operations;
- changes in market valuations of companies in the Company's industry;
- fluctuations in stock market prices and volume;
- fluctuations in oil and natural gas prices;
- issuances of common stock or other securities in the future;
- additions or departures of key personnel;
- announcements by the Company or the Company's competitors of new business, acquisitions, or joint ventures; and
- negative statements made by external parties about the Company's business in public forums.

The stock market has experienced significant price and volume fluctuations in recent years that have affected the price of common stock of companies within many industries including the oil and natural gas industry. The price of the Company's common stock could fluctuate based upon factors that have little to do with the Company's operational performance, and these fluctuations could materially reduce the Company's stock price. The Company could be a defendant in a legal case related to a significant loss of value for the shareholders. This could be expensive and divert management's attention and Company resources, as well as have an adverse effect on the Company's business, financial condition, and results of operations.

***If the Company cannot meet the New York Stock Exchange continued listing requirements, the NYSE may delist the Company's common stock.***

The Company's common stock is currently listed on the NYSE. In the future, if it is not able to meet the continued listing requirements of the NYSE, which require, among other things, that the average closing price of our common stock be above \$1.00 over 30 consecutive trading days, the Company's

common stock may be delisted. The Company's closing stock price on March 3, 2020 was \$1.47, and on December 31, 2019, closed at \$2.00. If the Company is unable to satisfy the NYSE criteria for continued listing, its common stock would be subject to delisting. A delisting of its common stock could negatively impact the Company by, among other things, reducing the liquidity and market price of the its common stock; reducing the number of investors willing to hold or acquire the Company's common stock, which could negatively impact its ability to raise equity financing; decreasing the amount of news and analyst coverage of the Company; and limiting the Company's ability to issue additional securities or obtain additional financing in the future. In addition, delisting from the NYSE might negatively impact the Company's reputation and, as a consequence, its business.

***An active market for the Company's common stock may not continue to exist or may not continue to exist at current trading levels.***

Trading volume for the Company's common stock historically has been very volatile when compared to companies with larger market capitalizations. The Company cannot presume that an active trading market for the Company's common stock will continue or be sustained. Sales of a significant number of shares of the Company's common stock in the public market could lower the market price of the Company's stock.

***The Company has no plans to pay dividends on the Company's common stock, and, therefore, investors will have to look to stock appreciation for return on investments.***

The Company does not anticipate paying any cash dividends on the Company's common stock within the foreseeable future. Any payment of future dividends will be at the discretion of the Company's board of directors and will depend, among other things, on the Company's earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations deemed relevant by the board of directors. Investors must rely on sales of common stock held after price appreciation, which may never occur, in order to realize a return on their investment. The lack of plans for dividends may make the stock of the Company an unattractive investment for investors who are seeking regular yield.

***Certain anti-takeover provisions of the Company's charter documents and applicable Delaware law could discourage or prevent others from acquiring the Company, which may adversely affect the market price of the Company's common stock.***

The Company's certificate of incorporation and bylaws contain provisions that:

- permit the Company to issue, without stockholder approval, up to 100,000 shares of preferred stock, in one or more series and, with respect to each series, to

fix the designation, powers, preferences, and rights of the shares of the series;

- prohibit stockholders from calling special meetings;
- limit the ability of stockholders to act by written consent;
- prohibit cumulative voting; and
- require advance notice for stockholder proposals and nominations for election to the board of directors to be acted upon at meetings of stockholders.

In addition, Section 203 of the Delaware General Corporation Law limits business combinations with owners of more than 15% of the Company's stock without the approval of the board of directors. Aforementioned provisions and other similar provisions make it more difficult for a third party to acquire the Company exclusive of negotiation. The Company's board of directors could choose not to negotiate with an acquirer deemed not beneficial to or synergistic with the Company's strategic outlook. If an acquirer were discouraged from offering to acquire the Company or prevented from successfully completing a hostile acquisition by these anti-takeover measures, stockholders could lose the opportunity to sell their shares at a favorable price.

***Future issuance of additional shares of common stock could cause dilution of ownership interests and adversely affect the Company's stock price.***

The Company is currently authorized to issue up to 80,000,000 shares of common stock. The Company may, in the future, issue previously authorized and unissued shares of common stock, which would result in the dilution of current stockholders ownership interests. Additional shares are subject to issuance through various equity compensation plans or through the exercise of currently outstanding options. The potential issuance of additional shares of common stock may create downward pressure on the trading price of the Company's common stock. The Company may also issue additional shares of common stock or other securities that are convertible into or exercisable for common stock in order to raise capital or effectuate other business purposes. Future sales of substantial amounts of common stock, or the perception that sales could occur, could have an adverse effect on the price of the Company's common stock.

***The Company may issue shares of preferred stock or debt securities with greater rights than the Company's common stock.***

Subject to the rules of the NYSE, the Company's certificate of incorporation authorizes the board of directors to issue one

or more additional series of preferred stock and to set the terms of the issuance without seeking approval from holders of common stock. Currently, there are 100,000 preferred shares authorized, with no shares currently outstanding. Any preferred stock that is issued may rank senior to common stock in terms of dividends, priority and liquidation premiums, and may have greater voting rights than holders of common stock.

***The Company's ability to use net operating loss carryforwards and tax attribute carryforwards to offset future taxable income may be limited.***

Under section 382 of the Internal Revenue Code of 1986, as amended, a corporation that undergoes an "ownership change" is subject to limitations on the Company's ability to utilize pre-change net operating losses ("NOLs"), and certain other tax attributes to offset future taxable income. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). An ownership change could limit the Company's ability to utilize existing NOLs and tax attribute carryforwards for taxable years including or following an identified "ownership change." Transactions involving the Company's common stock, even those outside the Company's control, such as purchases or sales by investors, within the testing period could result in an "ownership change."

In addition, under the 2017 Tax Act, the ability to carry back NOLs to prior taxable years is generally eliminated, and while NOLs arising in tax years beginning after 2017 may be carried forward indefinitely, these post-2017 NOLs may only reduce 80% of the Company's taxable income in a tax year. Limitations imposed on the ability to use NOLs and tax credits to offset future taxable income could reduce or eliminate the benefit of the NOLs and tax attributes and could require the Company to pay U.S. federal income taxes in excess of that which would otherwise be required if such limitations were not in effect. Similar rules and limitations may apply for state income tax purposes.

#### **Disclaimer of Obligation to Update**

Except as required by applicable law or regulation, the Company assumes no obligation (and specifically disclaims any such obligation) to update these risk factors or any other forward-looking statement contained in this Annual Report to reflect actual results, changes in assumptions, or other factors affecting such forward-looking statements.

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#### **Item 1B. Unresolved Staff Comments.**

Not applicable.

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**Item 2. Properties.**

At December 31, 2019, the Company operated five and two manufacturing, warehouse, and research facilities in the U.S. and internationally, respectively. Additionally, the Company has one research facility in Calgary, Alberta, Canada and one warehouse in Dubai, United Arab Emirates. The Company also has sales offices located in Denver, Colorado, Midland, Texas, Oklahoma City, Oklahoma, and Dubai, United Arab Emirates. The Company owns four of these facilities and the remainder are leased with lease terms that expire from 2020 through 2030. In addition, the Company's corporate office is a leased facility located in Houston, Texas. The following table sets forth facility locations:

| Segment                       | Owned/Leased | Location                    |
|-------------------------------|--------------|-----------------------------|
| Energy Chemistry Technologies | Owned        | Marlow, Oklahoma            |
|                               | Owned        | Monahans, Texas             |
|                               | Owned        | Raceland, Louisiana         |
|                               | Owned        | Waller, Texas               |
|                               | Leased       | Dubai, United Arab Emirates |
|                               | Leased       | Houston, Texas              |
|                               | Leased       | Midland, Texas              |
|                               | Leased       | Oklahoma City, Oklahoma     |
|                               | Leased       | Raceland, Louisiana         |
|                               | Leased       | Calgary, Alberta            |
|                               | Leased       | Denver, Colorado            |
|                               |              |                             |

The Company considers owned and leased facilities to be in good condition and suitable for the conduct of business.

**Item 3. Legal Proceedings.*****Other Litigation***

The Company is subject to routine litigation and other claims that arise in the normal course of business. Management is not aware of any pending or threatened lawsuits or proceedings

that are expected to have a material effect on the Company's financial position, results of operations or liquidity.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock began trading on the NYSE on December 27, 2007, under the stock ticker symbol "FTK." As of the close of business on March 3, 2020, there were 63,275,372 shares of common stock outstanding held by approximately 7,900 holders of record. The Company's closing sale price of the common stock on the NYSE on

March 3, 2020 was \$1.47. The Company has never declared or paid cash dividends on common stock. While the Company regularly assesses the dividend policy, the Company has no current plans to declare dividends on its common stock and intends, subject to Board approval.

#### Securities Authorized for Issuance Under Equity Compensation Plans

Equity compensation plan information relating to equity securities authorized for issuance under individual compensation agreements at December 31, 2019 is as follows:

| Plan Category                                              | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights <sup>(1)</sup> | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights <sup>(2)</sup> | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)) |
|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
|                                                            | (a)                                                                                                        | (b)                                                                                        | (c)                                                                                                                                        |
| Equity compensation plans approved by security holders     | 2,097,494                                                                                                  | \$ 1.22                                                                                    | 3,858,783                                                                                                                                  |
| Equity compensation plans not approved by security holders | 4,141,168                                                                                                  | \$ 1.33                                                                                    | —                                                                                                                                          |
| <b>Total</b>                                               | <b>6,238,662</b>                                                                                           | <b>\$ 1.29</b>                                                                             | <b>3,858,783</b>                                                                                                                           |

(1) Includes shares for outstanding stock options (3,000,000 shares), restricted stock awards (1,629,020 shares), restricted stock unit share equivalents (1,038,474 shares), and the right to purchase (572,168 shares).

(2) The weighted-average exercise price is for outstanding stock options only and does not include outstanding restricted stock awards, restricted stock unit equivalents, and rights that have no exercise price.

### Issuer Purchases of Equity Securities

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 December 31, 2019, the Company has repurchased \$25 million of its common stock under this repurchase program.

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 December 31, 2019, the Company has repurchased \$0.3 million of its common stock under this authorization and \$49.7 million may yet be used to purchase shares.

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

|                                 | <b>Total Number<br/>of Shares<br/>Purchased <sup>(1)</sup></b> | <b>Average Price<br/>Paid per Share</b> | <b>Total Number of Shares<br/>Purchased as Part of<br/>Publicly Announced Plans<br/>or Programs</b> | <b>Maximum Dollar Value<br/>of Shares that May Yet be<br/>Purchased Under the<br/>Plans or Programs</b> |
|---------------------------------|----------------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| October 1 to October 31, 2019   | 3,410                                                          | \$ 2.09                                 | —                                                                                                   | \$ 49,704,947                                                                                           |
| November 1 to November 30, 2019 | —                                                              | \$ —                                    | —                                                                                                   | \$ 49,704,947                                                                                           |
| December 1 to December 31, 2019 | 16,336                                                         | \$ 2.00                                 | —                                                                                                   | \$ 49,704,947                                                                                           |
| Total                           | 19,746                                                         | \$ 2.02                                 | —                                                                                                   |                                                                                                         |

(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.

## Item 6. Selected Financial Data.

The following table sets forth certain selected historical financial data and should be read in conjunction with Part II, Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 8 – “Financial Statements and Supplementary Data” of this Annual Report. The selected operating and financial position data as of and for each of the five years presented has been derived from audited consolidated Company financial statements, some of which appear elsewhere in this Annual Report. Financial data has been adjusted for discontinued operations, as indicated.

During the fourth quarter of 2018, the Company initiated a strategic plan to sell its CICT segment, which was completed in the first quarter of 2019. An investment banking advisory services firm was engaged and actively marketed this segment.

Effective December 31, 2018, the Company classified the assets, liabilities, and results of operations for this segment as “Discontinued Operations.”

During the fourth quarter of 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. During 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.

|                                                         | As of and for the year ended December 31, |          |      |          |      |          |      |          |      |          |
|---------------------------------------------------------|-------------------------------------------|----------|------|----------|------|----------|------|----------|------|----------|
|                                                         | 2019                                      |          | 2018 |          | 2017 |          | 2016 |          | 2015 |          |
|                                                         | (in thousands, except per share data)     |          |      |          |      |          |      |          |      |          |
| Operating Data                                          |                                           |          |      |          |      |          |      |          |      |          |
| Revenue <sup>(1)</sup>                                  | \$                                        | 119,353  | \$   | 177,773  | \$   | 243,106  | \$   | 188,233  | \$   | 213,593  |
| (Loss) income from operations <sup>(1)</sup>            |                                           | (76,625) |      | (69,811) |      | (10,320) |      | (16,968) |      | 3,536    |
|                                                         |                                           |          |      |          |      |          |      |          |      |          |
| (Loss) income from continuing operations <sup>(1)</sup> | \$                                        | (76,735) | \$   | (73,441) | \$   | (17,504) | \$   | (4,447)  | \$   | 1,489    |
| Income (loss) from discontinued operations, net of tax  |                                           | 44,456   |      | 2,743    |      | (9,891)  |      | (44,683) |      | (14,951) |
| Net loss                                                | \$                                        | (32,279) | \$   | (70,698) | \$   | (27,395) | \$   | (49,130) | \$   | (13,462) |

(1) Amounts exclude impact of discontinued operations.

|                                     |           |           |           |           |           |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|
| <b>Per Share Data</b>               |           |           |           |           |           |
| Basic earnings (loss) per share:    |           |           |           |           |           |
| Continuing operations               | \$ (1.31) | \$ (1.26) | \$ (0.30) | \$ (0.08) | \$ 0.03   |
| Discontinued operations, net of tax | 0.76      | 0.05      | (0.17)    | (0.80)    | (0.27)    |
| Basic earnings (loss) per share     | \$ (0.55) | \$ (1.21) | \$ (0.47) | \$ (0.88) | \$ (0.24) |
| Diluted earnings (loss) per share:  |           |           |           |           |           |
| Continuing operations               | \$ (1.31) | \$ (1.26) | \$ (0.30) | \$ (0.08) | \$ 0.03   |
| Discontinued operations, net of tax | 0.76      | 0.05      | (0.17)    | (0.80)    | (0.27)    |
| Diluted earnings (loss) per share   | \$ (0.55) | \$ (1.21) | \$ (0.47) | \$ (0.88) | \$ (0.24) |

|                                                                                                            |            |            |            |            |            |
|------------------------------------------------------------------------------------------------------------|------------|------------|------------|------------|------------|
| <b>Financial Position Data</b>                                                                             |            |            |            |            |            |
| Total assets                                                                                               | \$ 231,847 | \$ 285,883 | \$ 329,888 | \$ 383,215 | \$ 403,090 |
| Convertible senior notes, long-term debt, and capital lease obligations, less discount and current portion | —          | —          | —          | 7,833      | 18,255     |
| Stockholders’ equity                                                                                       | 173,276    | 201,624    | 264,900    | 287,343    | 293,651    |

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements included elsewhere in this Annual Report. The following information contains forward-looking statements, which are subject to risks and uncertainties. Should one or more of these risks or uncertainties materialize, actual results could differ from those expressed or implied by the forward-looking statements. See “Forward-Looking Statements” at the beginning of this Annual Report.

### **Basis of Presentation**

During the fourth quarter of 2018, the Company initiated a strategic plan to sell its CICT segment, which was completed in the first quarter of 2019. Effective December 31, 2018, the Company classified the assets, liabilities, and results of operations for this segment as “Discontinued Operations” for all periods presented.

During the fourth quarter of 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. During 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.

The results of operations of these segments are presented as “Income 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 these segments have been reclassified to “Assets held for sale” and “Liabilities held for sale”, respectively, in the consolidated balance sheet for all periods presented, as applicable.

### **Executive Summary**

Flotek is a global, technology-driven company that develops and supplies chemistries and services to the oil and gas industries. Flotek also supplied high value compounds to companies that make food and beverages, cleaning products, cosmetics, and other products that are sold in consumer and industrial markets, classified as discontinued operations at December 31, 2018. Flotek operates in seven domestic and international markets.

The Company’s business includes specialty chemistries and logistics which enable its customers to pursue improved efficiencies in the drilling and completion of their wells. Customers include major integrated oil and gas oil and gas companies, oilfield services companies, independent oil and gas companies, pressure-pumping service companies, and national and state-owned oil companies. Additionally, the

Company also provides automated bulk material handling, loading facilities, and blending capabilities.

### **Continuing Operations**

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

Energy Chemistry Technologies designs, develops, manufactures, packages, and markets specialty chemistries used in oil and gas 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.

### **Discontinued Operations**

In 2018, the CICT segment qualified for classification as a discontinued operation. The Drilling Technologies and Production Technologies segments were sold during 2017 and are classified as discontinued operations, as well.

### **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 oil and gas 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.

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 oil and gas operations, and
- Chemistries that are economically viable, socially responsible, and ecologically sound.

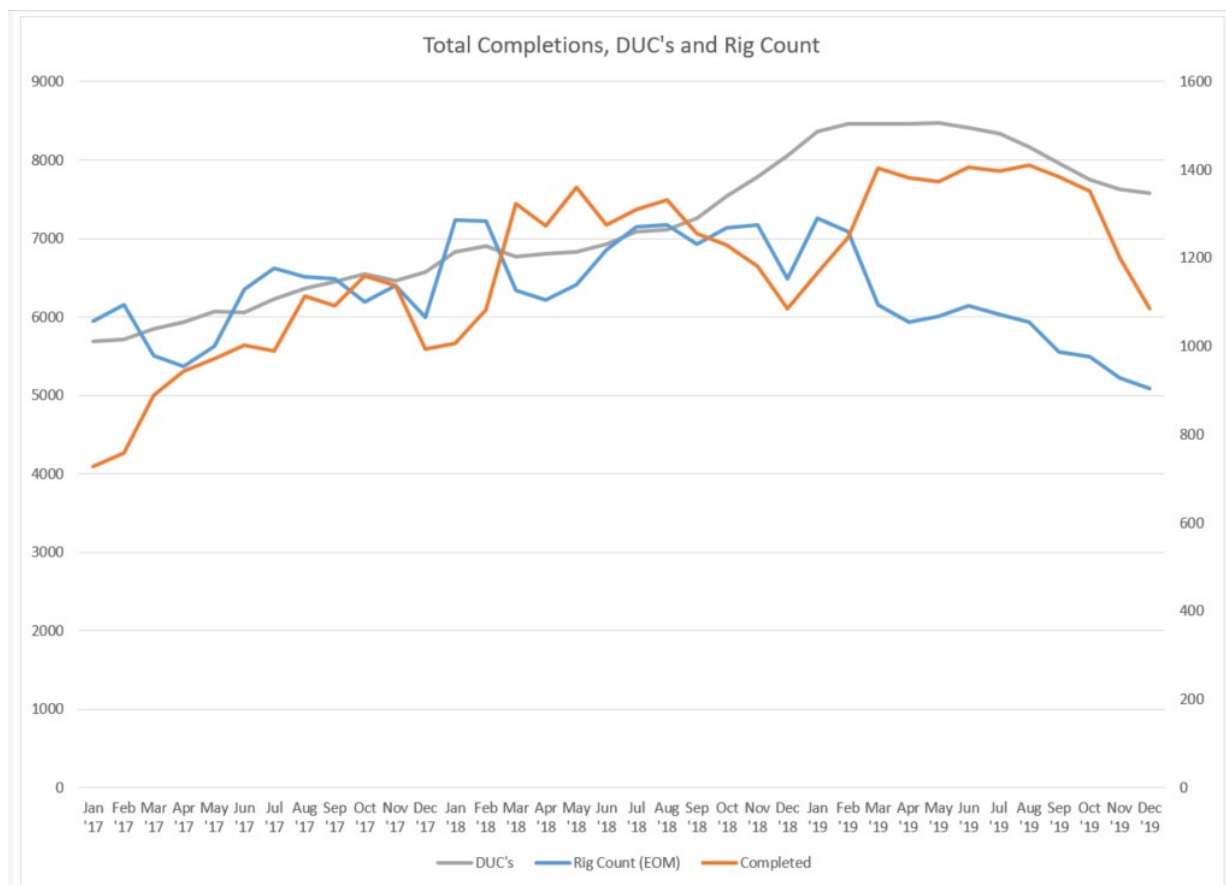
Market prices for commodities, including citrus oils, can be influenced by:

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

- Oil and gas drilling and completion operations,
- Oil and gas production operations, and
- Non-oil and gas industrial solvents.

The chart below reflects the trend of total completions, drilling but uncompleted wells (“DUCs”) and rig count over the last three years.

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



Source: Rig counts and DUCs are per Baker Hughes ([www.bakerhughes.com](http://www.bakerhughes.com)); Rig counts are the annual average of the reported weekly rig count activity. Completions are per the U.S. Energy Information Administration (<https://www.eia.gov/petroleum/drilling/>) as of January 21, 2020.

## Outlook for 2020

The current consensus is there will be further softening in the U.S. onshore oil and gas market in 2020. However, we believe an increase in the adoption of specialty chemicals could more than offset the decrease in drilling and completions activity. Our key sales focus is growing market share by improving returns for our current customers, rebuilding relationships with past customers and identifying new customers that could benefit from our chemistry solutions. Additionally, we are catalyzing focus on total cost of recovery per BOE, rather than initial cost, as well as strengthening the publicly available evidence for the efficacy of using advanced CnF® products to materially impact oil and gas recovery and profitability for operators.

As a result of the pivot we made from an indirect sales channel to a direct sales channel, the Company lost nearly all sales persons by April 2019. The organization has been rebuilt and new sales processes have been implemented. We expect that market segmentation improvements currently underway will better focus sales personnel on higher probability customers. We intend to expand sales efforts to include reestablishing an indirect sales channel for specific customers and markets. A blended approach of indirect and direct sales is expected to increase the sales funnel for existing products and services.

A second sales challenge involves customer procurement strategies that utilize integrated single supplier contracting methodologies. This “bundled-lowest-cost” strategy provides efficiency but diminishes focus on effectiveness and potentially compromises both production rates and ultimate recovery. We do not intend to focus on customers that use “bundled-lowest-cost” methodologies, enabling our sales force to focus on those customers with the desire to achieve the highest return on capital rather than the lowest cost per activity.

During 2020, we intend to invest in analytics, both internally and externally, demonstrating the value and benefits of our products. Our efforts are expected to include partnering with specific clients willing to share the required data to validate publicly the increased profitability of wells using Flotek’s proprietary chemistry. We are also exploring relationships with third-party digital fluid flow modeling experts to provide production forecast for wells with and without treatment.

We continue to pursue patents associated with our core business to ensure our ability to provide uninterrupted products and services to our customers. Our creation of intellectual property associated with chemistry supports our belief that the manipulation of subsurface flow conditions through chemistry-coupled with advances in proppant loading, fluid loading and increases in lateral length will yield the most profitable results for our customers. We also believe that to maintain premium pricing and differentiation, our research group must continually position the company as a leader in advanced chemicals.

Building upon significant efforts and progress made in 2019, Flotek will continue to focus on operational excellence as a means for driving efficiencies, cost savings and differentiation in the marketplace. Our emphasis in 2020 will remain on consistent execution, underpinned by our relentless focus on safety.

We do not anticipate a material escalation in our maintenance capital year-over-year. We have numerous evaluations underway to determine the best possible use of our cash in 2020. These include seeking growth opportunities that reduce our dependence on rig count; working on developing lines that create a greater amount of backlog and/or annually recurring revenue; increasing efforts to differentiate our offering from competitors, while enhancing our capability to provide digital transformation of chemistry; striving to strengthen our market share for our current product lines; and evaluating a special distribution to shareholders.

We believe that our cash position, public equity, strong market presence in North America, debt-free status, continuous focus on cost reduction, commitment to environmental, social and governance (“ESG”) matters and strong governance make us attractive to numerous privately held companies seeking liquidity, as well as to independent and major operators who are seeking to increase production for an overall lower cost-per-barrel.

**Results of Continuing Operations (in thousands):**

|                                                              | Years ended December 31, |             |             |
|--------------------------------------------------------------|--------------------------|-------------|-------------|
|                                                              | 2019                     | 2018        | 2017        |
| Revenue                                                      | \$ 119,353               | \$ 177,773  | \$ 243,106  |
| Operating expenses (excluding depreciation and amortization) | 149,225                  | 159,808     | 188,744     |
| Operating expenses %                                         | 125.0 %                  | 89.9 %      | 77.6 %      |
| Corporate general and administrative costs                   | 27,975                   | 31,467      | 41,492      |
| Corporate general and administrative costs %                 | 23.4 %                   | 17.7 %      | 17.1 %      |
| Depreciation and amortization                                | 8,465                    | 9,216       | 9,768       |
| Research and development costs                               | 8,863                    | 10,356      | 13,130      |
| (Gain) loss on disposal of long-lived assets                 | 1,450                    | (443)       | 292         |
| Impairment of goodwill                                       | —                        | 37,180      | —           |
| Loss from operations                                         | (76,625)                 | (69,811)    | (10,320)    |
| Operating margin %                                           | (64.2)%                  | (39.3)%     | (4.2)%      |
| Loss on sale of business                                     | —                        | (360)       | —           |
| Loss on write-down of assets held for sale                   | —                        | (2,580)     | —           |
| Interest and other expense, net                              | (311)                    | (7,906)     | (1,072)     |
| Loss before income taxes                                     | (76,936)                 | (80,657)    | (11,392)    |
| Income tax benefit (expense)                                 | 201                      | 7,216       | (6,112)     |
| Loss from continuing operations                              | (76,735)                 | (73,441)    | (17,504)    |
| Income (loss) from discontinued operations, net of tax       | 44,456                   | 2,743       | (9,891)     |
| Net loss                                                     | \$ (32,279)              | \$ (70,698) | \$ (27,395) |
| Net loss attributable to noncontrolling interests            | —                        | 358         | —           |
| Net loss attributable to Flotek Industries, Inc. (Flotek)    | \$ (32,279)              | \$ (70,340) | \$ (27,395) |

**Results for 2019 compared to 2018—Consolidated**

Consolidated revenue for the year ended December 31, 2019, decreased \$58.4 million, or 32.9%, from 2018. The decrease in revenue was due to changes in product mix and continued volatile macro-environment for U.S. onshore drilling and completion activity, the transition of personnel in the Company's sales organization as well as the ongoing transition related to the Company selling progressively more to oil and gas company end users rather than through energy service companies.

Consolidated operating expenses for the year ended December 31, 2019, decreased \$10.6 million, or 6.6%, from 2018, and, as a percentage of revenue, increased to 125.0% for the year ended December 31, 2019, from 89.9% in 2018. The decrease in expenses was primarily attributable to decreased sales, improved logistical and supply chain costs, lower inventory adjustments, and decreased headcount, partially offset by the loss on the purchase commitment associated with the terpene supply agreement, excess and obsolete inventory costs, lower plant utilization and a one-time charge related to the termination of an operations related contract.

Corporate general and administrative ("CG&A") expenses are not directly attributable to products sold or services provided. CG&A costs decreased \$3.5 million, or 11.1%, for the year

ended December 31, 2019, from 2018. As a percentage of revenue, CG&A rose from 17.7% to 23.4% for the year ended December 31, 2019, compared to 2018. The decrease in CG&A costs was primarily due to continuing aggressive cost reduction measures which began in the last quarter of 2017, lower incentive and stock compensation expense, lower professional fees as well as decreased headcount and software licensing fees, partially offset by costs associated with severance, legal fees, and certain shareholder-related activities.

Depreciation and amortization expense for the year ended December 31, 2019, decreased by \$0.8 million, or 8.1%, from 2018.

Research and Innovation ("R&I") expense for the year ended December 31, 2019, decreased \$1.5 million, or 14.4%, from 2018. The decrease in R&I is primarily attributable to lower headcount.

During the second quarter of 2018, the Company recognized a goodwill impairment charge of \$37.2 million in the Energy Chemistry Technologies reporting unit, which resulted from sustained under-performance, lower expectations for the reporting unit.

During the second quarter of 2018, the Company committed to a plan to divest the revenue generating assets associated

with the Dalton, Georgia facility within the Energy Chemistry Technologies segment. As a result of this planned divestiture, the Company recorded a loss on write-down of assets held for sale of \$2.6 million for the three months ended June 30, 2018. During the third quarter of 2018, the Company completed the sale and recorded a loss on the sale of the business of \$0.4 million for the three months ended September 30, 2018.

Loss on disposal of long-lived assets increased \$1.9 million primarily due to the disposal of certain corporate software.

Interest and other expense decreased \$7.6 million for the year ended December 31, 2019, compared to 2018, primarily due to nonrecurring \$1.2 million and \$1.9 million write-offs associated with the discontinuation of certain corporate projects during the second and fourth quarter of 2018, respectively, \$3.4 million related to moving from an interest expense position to an interest income position as a result of the sale of the CICT segment and subsequent termination of the PNC Bank Credit Facility and \$2.6 million associated with a write-down of assets held for sale associated with the Dalton, Georgia facility within the Energy Chemistry Technologies segment offset by acceleration of \$1.4 million of unamortized debt issuance costs associated with PNC Bank Credit Facility upon termination of the facility.

The Company recorded an income tax benefit of \$0.2 million, yielding an effective tax benefit rate of 0.3%, for the year ended December 31, 2019, compared to an income tax benefit of \$7.2 million, yielding an effective tax rate of 8.9%, in 2018. In the second quarter of 2018, the Company determined that it was more likely than not that it will not realize the benefits of its gross deferred tax assets and, therefore, recorded a \$15.5 million valuation allowance against the carrying value of net deferred tax assets. As all available evidence should be taken into consideration when assessing the need for a valuation allowance, the subsequent events that occurred in the first quarter of 2019 provided a source of income to support the release of \$11.5 million of the valuation allowance. As such, the Company reversed this portion of the valuation allowance during the fourth quarter of 2018.

During the fourth quarter of 2018, the Company initiated a strategic plan to sell its Consumer and Industrial Chemistry Technologies segment, which was completed in the first quarter of 2019. The Company recorded net income from discontinued operations of \$44.5 million for the year ended December 31, 2019.

### **Results for 2018 compared to 2017—Consolidated**

Consolidated revenue for the year ended December 31, 2018, decreased \$65.3 million, or 26.9%, from 2017. The decrease in revenue was due to changes in product mix and ongoing transition related to the Company selling progressively more to oil and gas company end users rather than through energy service companies.

Consolidated operating expenses for the year ended December 31, 2018, decreased \$28.9 million, or 15.3%, from

2017, and, as a percentage of revenue, increased to 89.9% for the year ended December 31, 2018, from 77.6% in 2017. The decrease in expenses was primarily attributable to decreased sales, lower stock compensation expense, and decreased headcount, partially offset by increased freight and other direct costs associated with manufacturing.

CG&A expenses are not directly attributable to products sold or services provided. CG&A costs decreased \$10.0 million, or 24.2%, for the year ended December 31, 2018 from 2017. As a percentage of revenue, CG&A rose from 17.1% to 17.7% for the year ended December 31, 2018, compared to 2017. The decrease in CG&A costs was primarily due to aggressive cost reduction measures which began in the last quarter of 2017, as well as lower incentive and stock compensation expense.

Depreciation and amortization expense for the year ended December 31, 2018, decreased \$0.6 million, or 5.7%, from 2017.

Research and Innovation (“R&I”) expense for the year ended December 31, 2018, decreased \$2.8 million, or 21.1%, from 2017. The decrease in R&I is primarily attributable to reallocating personnel into operational roles.

During the second quarter of 2018, the Company recognized a goodwill impairment charge of \$37.2 million in the Energy Chemistry Technologies reporting unit, which resulted from sustained under-performance, lower expectations for the reporting unit.

During the second quarter of 2018, the Company committed to a plan to divest the revenue generating assets associated with the Dalton, Georgia facility within the Energy Chemistry Technologies segment. As a result of this planned divestiture, the Company recorded a loss on write-down of assets held for sale of \$2.6 million for the three months ended June 30, 2018. During the third quarter of 2018, the Company completed the sale and recorded a loss on the sale of the business of \$0.4 million for the three months ended September 30, 2018.

Interest and other expense increased \$6.8 million for the year ended December 31, 2018, compared to 2017, primarily due to \$1.2 million and \$1.9 million write-offs associated with the discontinuation of certain corporate projects during the second and fourth quarter of 2018, respectively, expenses related to winding down of certain business ventures, changes in foreign currency exchange rates, and increased borrowing on the PNC Bank Credit Facility throughout 2018.

The Company recorded an income tax benefit of \$7.2 million, yielding an effective tax benefit rate of 8.9%, for the year ended December 31, 2018, compared to an income tax provision of \$6.1 million, yielding an effective tax provision rate of 53.7%, in 2017. In the second quarter of 2018, the Company determined that it was more likely than not that it will not realize the benefits of its gross deferred tax assets and, therefore, recorded a \$15.5 million valuation allowance against the carrying value of the net deferred tax assets. As all available evidence should be taken into consideration when

assessing the need for a valuation allowance, the subsequent events that occurred in the first quarter of 2019 provided a source of income to support the release of \$11.5 million of the valuation allowance. As such, the Company reversed this portion of the valuation allowance during the fourth quarter of 2018.

During the fourth quarter of 2018, the Company initiated a strategic plan to sell its Consumer and Industrial Chemistry

### **Results by Segment**

#### ***Energy Chemistry Technologies (“ECT”)***

***(dollars in thousands)***

|                                               | Years ended December 31, |            |            |
|-----------------------------------------------|--------------------------|------------|------------|
|                                               | 2019                     | 2018       | 2017       |
| Revenue                                       | \$ 119,353               | \$ 177,773 | \$ 243,106 |
| (Loss) income from operations                 | (46,485)                 | (36,817)   | 33,611     |
| Income from operations - excluding impairment | (46,485)                 | 363        | 33,611     |
| Operating margin % - excluding impairment     | (38.9)%                  | 0.2%       | 13.8%      |

#### ***Results for 2019 compared to 2018—Energy Chemistry Technologies***

ECT revenue for the year ended December 31, 2019, decreased \$58.4 million, or 32.9%, from 2018. ECT’s under-performance when compared to these market indicators were primarily attributable to product mix and continued volatile macro-environment for U.S. onshore drilling and completion activity, the transition of personnel in the Company’s sales organization as well as the ongoing transition related to the Company selling progressively more to oil and gas company end users rather than through energy service companies.

Income from operations for the ECT segment decreased \$9.7 million for the year ended December 31, 2019, compared to 2018. This decrease is primarily a result of the loss on the terpene supply agreement, excess and obsolete inventory costs, lower plant utilization and a one-time charge related to the termination of an operations related contract. The loss is partially offset by improved logistical and supply chain costs, lower inventory adjustments, and decreased headcount, partially offset by lower plant utilization and a one-time charge related to the termination of an operations related contract.

Technologies segment, which was completed in the first quarter of 2019. The Company recorded net income from discontinued operations of \$2.7 million for the year ended December 31, 2018 for the classification of this segment as held for sale. The sale was completed during the first quarter of 2019 as expected.

#### ***Results for 2018 compared to 2017—Energy Chemistry Technologies***

ECT revenue for the year ended December 31, 2018, decreased \$65.3 million, or 26.9% from 2017. ECT’s under-performance when compared to these market indicators was primarily attributable to product mix and an ongoing transition related to the Company selling progressively more to oil and gas company end users rather than through energy service companies.

Income from operations for the ECT segment decreased \$70.4 million for the year ended December 31, 2018, compared to 2017, partially due to the \$37.2 million goodwill impairment charge taken in the second quarter of 2018. Income from operations, excluding impairment, decreased \$33.2 million, or 98.9%, for the year ended December 31, 2018, compared to 2017. This decrease is primarily a result of gross margin compression caused by reduced sales activity coupled with increases in material and labor costs, inventory reserve adjustments, and higher logistics expenditures, partially offset by a reduction in overhead expenses.

### **Discontinued Operations**

During the fourth quarter of 2018, the Company initiated a strategic plan to sell its Consumer and Industrial Chemistry Technologies segment, which was completed in the first quarter of 2019. During 2017, the Company completed the

sale or disposal of the assets and transfer or liquidation of liabilities and obligations of the Drilling Technologies and Production Technologies segments.

**Consumer and Industrial Chemistry Technologies (“CICT”)**  
(dollars in thousands)

|                               | Years ended December 31, |           |           |
|-------------------------------|--------------------------|-----------|-----------|
|                               | 2019                     | 2018      | 2017      |
| Revenue                       | \$ 11,031                | \$ 72,344 | \$ 73,992 |
| Income (loss) from operations | \$ (610)                 | \$ 3,054  | \$ 7,465  |
| Operating margin %            | (5.5)%                   | 4.2%      | 10.1%     |

**Results for 2019 compared to 2018—Consumer and Industrial Chemistry Technologies**

CICT revenue for the year ended December 31, 2019, decreased \$61.3 million, or 84.8%, from 2018, primarily due to the sale of the segment as of February 28, 2019.

Income from operations for the CICT segment decreased \$3.7 million, or 120.0%, for the year ended December 31, 2019, from 2018, primarily due to the sale of the segment as of February 28, 2019.

**Results for 2018 compared to 2017—Consumer and Industrial Chemistry Technologies**

CICT revenue for the year ended December 31, 2018, decreased \$1.6 million, or 2.2%, from 2017, primarily due to

a decline in the value of terpenes and some softness for flavor ingredients. The market of citrus oils was affected by the historic high prices experienced in 2017 and 2018, which limited market activity and top line revenue. Citrus greening reduced citrus crops globally, thereby limiting the Company’s performance in comparison to the growth experienced in 2016 and 2017.

Income from operations for the CICT segment decreased \$4.4 million, or 59.1%, for the year ended December 31, 2018, from 2017, primarily due to higher raw material costs and reduced by-product sales, as well as increased expenses related to operations of the new still put into production in the third quarter of 2018.

**Drilling Technologies**  
(dollars in thousands)

|                                             | Years ended December 31, |      |            |
|---------------------------------------------|--------------------------|------|------------|
|                                             | 2019                     | 2018 | 2017       |
| Revenue                                     | \$ —                     | \$ — | \$ 11,534  |
| Loss from operations                        | \$ —                     | \$ — | \$ (2,646) |
| Loss from operations - excluding impairment | \$ —                     | \$ — | \$ (2,646) |
| Operating margin % - excluding impairment   | —%                       | —%   | (22.9)%    |

**Results for 2018 compared to 2017—Drilling Technologies**

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.

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.

Upon completion of these sales, the Company ceased all operations for the Drilling Technologies segment.

**Production Technologies**  
(dollars in thousands)

|                                             | Years ended December 31, |      |            |
|---------------------------------------------|--------------------------|------|------------|
|                                             | 2019                     | 2018 | 2017       |
| Revenue                                     | \$ —                     | \$ — | \$ 4,002   |
| Loss from operations                        | \$ —                     | \$ — | \$ (1,357) |
| Loss from operations - excluding impairment | \$ —                     | \$ — | \$ (1,357) |
| Operating margin % - excluding impairment   | —%                       | —%   | (33.9)%    |

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**Results for 2018 compared to 2017—Production Technologies**

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.

Upon completion of this sale, the Company ceased all operations for the Production Technologies segment.

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**Capital Resources and Liquidity****Overview**

Upon closing of the sale of the CICT segment, the Company repaid the outstanding balance, interest, and fees related on the PNC Bank Credit Facility on March 1, 2019 and subsequently terminated the PNC Bank Credit Facility. As of December 31, 2019, the Company has no debt outstanding.

During 2019, the Company funded capital requirements primarily with cash on hand, including proceeds from the sale of the CICT segment.

At December 31, 2019, the Company remained compliant with the continued listing standards of the NYSE.

Cash and cash equivalents totaled \$100.6 million at December 31, 2019. The Company used \$18.8 million of cash outflows from continuing operations (including \$17.1 million expended in working capital), \$2.4 million for capital expenditures, and \$0.6 million for purchases of various patents and other intangible assets. Offsetting these cash outflows, the Company received \$49.7 million for repayments of debt, net

of borrowings, \$169.8 million for sale of CICT, and \$0.2 million as proceeds from sale of assets.

**Liquidity**

The Company expects maintenance capital spending to be between \$2 million and \$4 million in 2020 and does not have any specific growth capital projects currently committed. During 2020, the Company expects to use cash on hand and internally generated funds to fund operations and capital expenditures. With the proceeds from the sale of the CICT segment, the Company paid off its credit facility balance and began evaluation of the manner in which the remaining net proceeds from the sale will be deployed. During 2019, management and the board of directors reviewed options associated with the proceeds from the sale of CICT to include organic and inorganic growth projects, short to mid-term retention of capital, special dividends, and share buybacks, bearing in mind issues related to the optimal timing of capital deployment.

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### 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):

|                                   | December 31, 2019 | December 31, 2018 |
|-----------------------------------|-------------------|-------------------|
| Cash and cash equivalents         | \$ 100,575        | \$ 3,044          |
| Current portion of long-term debt | —                 | (49,731)          |
| Net debt                          | \$ 100,575        | \$ (46,687)       |

### Cash Flows

Cash flow metrics from the consolidated statements of cash flows are as follows (in thousands):

|                                                                          | Years ended December 31, |             |           |
|--------------------------------------------------------------------------|--------------------------|-------------|-----------|
|                                                                          | 2019                     | 2018        | 2017      |
| Net cash (used in) provided by operating activities                      | \$ (18,769)              | \$ (20,816) | \$ 12,345 |
| Net cash provided (used in) by investing activities                      | 166,937                  | (2,109)     | 14,526    |
| Net cash (used in) provided financing activities                         | (49,994)                 | 21,480      | (27,285)  |
| Net cash flows provided by (used in) provided by discontinued operations | 15                       | (7)         | 24        |
| Effect of changes in exchange rates on cash and cash equivalents         | 5                        | (88)        | 151       |
| Net change in cash, cash equivalents and restricted cash                 | \$ 98,194                | \$ (1,540)  | \$ (239)  |

### Operating Activities

During 2019, 2018, and 2017, cash (used in) operating activities totaled \$18.8 million, \$20.8 million, and \$12.3 million, respectively. Consolidated net loss for 2019, 2018, and 2017 totaled \$76.7 million, \$73.1 million and \$17.5 million, respectively.

Net non-cash contributions to net income in 2019, totaled \$40.8 million. Contributory non-cash items consisted primarily of \$9.9 million for depreciation and amortization expense, \$4.2 million for stock compensation expense, \$18.3 million for changes to deferred income taxes and \$1.5 million for net gain on sale of assets.

Net non-cash contributions to net income in 2018, totaled \$54.4 million. Contributory non-cash items consisted primarily of \$9.6 million for depreciation and amortization expense, \$37.2 million for the impairment of goodwill, intangible assets or fixed assets, \$7.1 million for stock compensation expense, \$2.6 million for the loss on write down of assets held for sale, \$0.7 million for reduction in incremental tax benefit related to share-based awards, \$3.3 million for provisions related to accounts receivables and inventory reserves, \$(0.4) million for net loss on sale of assets, and \$(6.0) million for changes to deferred income taxes.

Net non-cash contributions to net income in 2017, totaled \$23.9 million. Contributory non-cash items consisted primarily of \$10.2 million for depreciation and amortization expense, \$10.6 million for stock compensation expense, \$2.0 million for reduction in incremental tax benefit related to

share-based awards and \$0.2 million for provisions related to accounts receivables, partially offset by \$0.2 million for changes to deferred income taxes.

During 2019, changes in working capital provided \$17.1 million in cash, primarily resulting from increasing accounts receivables and income taxes receivable by \$8.4 million and decreasing accrued liabilities and interest payable by \$0.0 million, partially offset by decreasing inventories and other current assets by \$23.5 million and increasing accounts payable by \$2.0 million.

During 2018, changes in working capital used \$2.1 million in cash, primarily resulting from decreasing accounts receivables, income taxes receivable, and other current assets by \$5.8 million, partially offset by increasing inventories by \$3.7 million and decreasing accounts payable and accrued liabilities by \$8.8 million.

During 2017, changes in working capital provided \$6.0 million in cash, primarily resulting from increasing accounts payable while accrued liabilities remained relatively unchanged, partially offset by increasing accounts receivables, inventories, income taxes receivable, and other current assets by \$3.4 million and decreasing income taxes payable and interest payable by \$14.7 million.

### ***Investing Activities***

Net cash provided by investing activities was \$166.9 million during 2019. Cash provided by investing activities included \$169.7 million of proceeds received from the sale of revenue generating assets associated with a business line within the ECT segment and \$0.2 million of proceeds received from the sale of fixed assets, partially offset by \$2.4 million for capital expenditures and \$0.6 million for the purchase of various patents and other intangible assets.

Net cash used in investing activities was \$2.1 million during 2018. Cash used in investing activities primarily included \$1.7 million of proceeds received from the sale of the Drilling Technologies and Production Technologies segments and \$1.4 million of proceeds received from the sale of fixed assets, partially offset by \$3.6 million for capital expenditures and \$1.6 million for the purchase of various patents and other intangible assets.

Net cash provided by investing activities was \$14.5 million during 2017. Cash provided by investing activities primarily included \$4.2 million for capital expenditures, \$0.5 million for the purchase of patents and intangible assets offset by \$18.5 million of proceeds from sale of business and \$0.7 million of proceeds from sales of assets.

### ***Financing Activities***

Net cash used in financing activities was \$50.0 million during 2019, primarily due to using \$49.7 million for repayments of debt, net of borrowings.

Net cash generated through financing activities was \$21.5 million during 2018, due to receiving \$21.8 million for borrowings of debt, net of repayments, \$0.2 million for purchases of treasury stock for tax withholding purposes related to the vesting of restricted stock awards and the exercise of non-qualified stock options, and \$0.1 million for payments of debt issuance costs. Cash generated through financing activities was partially offset by receiving \$0.3 million in proceeds from the sale of common stock.

During 2017, net cash used in financing activities was \$27.3 million. Cash used in financing activities was primarily due

to receiving \$0.7 million in proceeds from the sale of common stock, inclusive of \$30.1 million, net of issuance costs, from the private placement of 2.5 million common shares on July 27, 2016. Cash used in financing activities was partially offset by using \$20.4 million for repayments of debt, net of borrowings, purchases of treasury stock for tax withholding purposes related to the vesting of restricted stock awards and the exercise of non-qualified stock options of \$1.7 million, and payments of debt issuance costs of \$0.6 million.

### **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 December 31, 2019, the Company was not involved in any unconsolidated SPEs.

The Company has not made any guarantees to customers or vendors nor does the Company have any off-balance sheet arrangements or commitments that have, or are reasonably likely to have, a current or future effect on the Company’s financial condition, change in financial condition, revenue, expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

### **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 supply commitments, operating and finance lease obligations.

Contractual obligations at December 31, 2019 are as follows (in thousands):

|                                      | Payments Due by Period |                     |                  |                 |                      |
|--------------------------------------|------------------------|---------------------|------------------|-----------------|----------------------|
|                                      | Total                  | Less than<br>1 year | 1 - 3 years      | 3 - 5 years     | More than<br>5 years |
| Finance lease obligation             | \$ 249                 | \$ 70               | \$ 117           | \$ 62           | \$ —                 |
| Operating lease obligations          | 33,599                 | 2,036               | 3,878            | 3,993           | 23,692               |
| Supply commitments for raw materials | 72,020                 | 18,005              | 54,015           | —               | —                    |
| Total                                | <u>\$ 105,868</u>      | <u>\$ 20,111</u>    | <u>\$ 58,010</u> | <u>\$ 4,055</u> | <u>\$ 23,692</u>     |

## **Critical Accounting Policies and Estimates**

The Company's consolidated 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 of assets and liabilities in the financial statements and revenue and expenses during the reporting period. Significant accounting policies are described in Note 2 – "Summary of Significant Accounting Policies" in Part II, Item 8 – "Financial Statements and Supplementary Data" of this Annual Report. The Company believes the following accounting policies are critical due to the significant, subjective, and complex judgments and estimates required when preparing the consolidated financial statements. The Company regularly reviews judgments, assumptions, and estimates to the critical accounting policies.

### ***Basis of Presentation***

During the fourth quarter of 2018, the Company initiated a strategic plan to sell its CICT segment, which was completed in the first quarter of 2019. Effective December 31, 2018, the Company classified the assets, liabilities, and results of operations for this segment as "Discontinued Operations" for all periods presented.

Amounts previously reported have been reclassified to conform to this presentation to allow for meaningful comparison of continuing operations.

During the fourth quarter of 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. During 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.

### ***Revenue Recognition***

The Company recognizes revenues to depict the transfer of control of promised goods or services to its customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. Refer to Note 4 — "Revenue from Contracts with Customers" for further discussion on Revenue.

The Company recognizes revenue based on the Accounting Standards Codification ("ASC") 606 five-step model when all of the following criteria have been met: (i) a contract with a customer exists, (ii) performance obligations have been identified, (iii) the price to the customer has been determined, (iv) the price to the customer has been allocated to the performance obligations, and (v) performance obligations are satisfied.

Products and services are sold with fixed or determinable prices. Certain sales include right of return provisions, which are considered when recognizing revenue and deferred

accordingly. Deposits and other funds received in advance of delivery are deferred until the transfer of control is complete.

For certain contracts, the Company recognizes revenue under the percentage-of-completion method of accounting, measured by the percentage of "costs incurred to date" to the "total estimated costs of completion." This percentage is applied to the "total estimated revenue at completion" to calculate proportionate revenue earned to date. For the years ended December 31, 2019, 2018, and 2017, the percentage-of-completion revenue accounted for less than 0.1% of total revenue during the respective time periods.

As an accounting policy election, the Company excludes from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenues.

### ***Allowance for Doubtful Accounts***

The Company performs ongoing credit evaluations of customers and grants credit based upon historical payment history, financial condition, and industry expectations, as available. Determination of the collectability of amounts due from customers requires the Company to use estimates and make judgments regarding future events and trends, including monitoring customers' payment history and current credit worthiness, in order to determine that collectability is reasonably assured. The Company also considers the overall business climate in which its customers operate.

These uncertainties require the Company to make frequent judgments and estimates regarding a customers' ability to pay amounts due in order to assess and quantify an appropriate allowance for doubtful accounts. The primary factors used to quantify the allowance are customer delinquency, bankruptcy, and the Company's estimate of its ability to collect outstanding receivables based on the number of days a receivable has been outstanding.

The majority of the Company's customers operate in the energy industry. The cyclical nature of the industry may affect customers' operating performance and cash flows, which could impact the Company's ability to collect on these obligations. Additionally, some customers are located in international areas that are inherently subject to risks of economic, political, and civil instability.

The Company continues to monitor the economic climate in which its customers operate and the aging of its accounts receivable. The allowance for doubtful accounts is based on the aging of accounts and an individual assessment of each invoice. At December 31, 2019, the allowance was 8.9% of

gross accounts receivable, compared to an allowance of 3.1% a year earlier. While credit losses have historically been within expectations and the provisions established, should actual write-offs differ from estimates, revisions to the allowance would be required.

### ***Inventory Reserves***

Inventories consist of raw materials, work-in-process, and finished goods and are stated at the lower of cost or market, using the weighted-average cost method. Finished goods inventories include raw materials, direct labor, and production overhead. The Company's inventory reserve represents the excess of the inventory carrying amount over the amount expected to be realized from the ultimate sale or other disposal of the inventory.

The Company regularly reviews inventory quantities on hand and records provisions or impairments for excess or obsolete inventory based on the Company's forecast of product demand, historical usage of inventory on hand, market conditions, production and procurement requirements, and technological developments. Significant or unanticipated changes in market conditions or Company forecasts could affect the amount and timing of provisions for excess and obsolete inventory and inventory impairments.

Significant changes have not been made in the methodology used to estimate the reserve for excess and obsolete inventory or impairments during the past four years. Specific assumptions are updated at the date of each evaluation to consider Company experience and current industry trends. Significant judgment is required to predict the potential impact which the current business climate and evolving market conditions could have on the Company's assumptions. Changes which may occur in the energy industry are hard to predict, and they may occur rapidly. To the extent that changes in market conditions result in adjustments to management assumptions, impairment losses could be realized in future periods.

At December 31, 2019 and 2018, the reserve for excess and obsolete inventory was \$5.7 million and \$2.1 million, or 20.8% and 7.2% of inventory, respectively.

### ***Business Combinations***

The Company allocates the fair value of purchase consideration to the assets acquired, liabilities assumed, and any non-controlling interests in the acquired entity generally based on their fair values at the acquisition date. The excess of the fair value of purchase consideration over the fair value of these assets acquired, liabilities assumed, and any non-controlling interests in the acquired entity is recorded as goodwill. The primary items that generate goodwill include the value of the synergies between the acquired company and Flotek and the value of the acquired assembled workforce. Acquisition-related expenses are recognized separately from the business acquisition and are recognized as expenses as incurred.

Although the Company believes the assumptions and estimates it has made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

### ***Goodwill***

Goodwill is not subject to amortization, but is tested for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would indicate a potential impairment. These circumstances may include, but are not limited to, a significant adverse change in the business climate, unanticipated competition, or a change in projected operations or results of a reporting unit. Goodwill is tested for impairment at a reporting unit level.

During the annual testing, the Company assesses whether a goodwill impairment exists using both qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, based on this qualitative assessment, it is determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company does not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if the Company elects not to perform a qualitative assessment, a quantitative impairment test is performed to determine whether goodwill impairment exists at the reporting unit.

During annual goodwill impairment testing in 2018 and 2017, the Company first assessed qualitative factors to determine whether it was necessary to perform the quantitative impairment test. During annual goodwill impairment testing in 2017, the Company first assessed qualitative factors to determine whether it was necessary to perform the two-step goodwill impairment test.

As of the fourth quarter of 2018, the Company concluded it was not more-likely-than-not that there was an impairment of goodwill for the CICT reporting unit based on the assessment of qualitative factors. During the fourth quarter of 2018, the final criterion was met for classifying the CICT reporting unit as held for sale. Therefore, the CICT reporting unit was reported as discontinued operations. After receiving initial interests from potential buyers, it was determined that the disposal proceeds, after considering selling costs, would result in excess over book value. As this was in-line with quantitative impairment tests performed in previous quarters for the CICT reporting unit, no further impairment assessment was needed.

For the second quarter of 2018, the Company was not able to conclude that it was not more-likely-than-not that the estimated fair value of the Energy Chemistry Technologies ("ECT") reporting unit exceeded the carrying amount.

Therefore, the Company performed a quantitative impairment test for the reporting unit. The results of the impairment test indicated that the carrying amount of the ECT reporting unit exceeded the estimated fair value of the reporting unit by approximately \$37.8 million, or 25.6% of the carrying amount. To evaluate the sensitivity of the fair value calculations for the ECT reporting units, the Company applied a hypothetical 0.5% unfavorable change in the weighted average cost of capital, which would have reduced the estimated fair value of the ECT reporting unit by approximately \$5.7 million. Additionally, reducing the revenue projections by 1.0% and holding gross margins steady reduced the estimated fair value approximately \$4.4 million. These sensitivity analyses confirmed the need for an impairment for the ECT reporting unit. The Company recorded a full impairment of the goodwill for \$37.2 million in the ECT reporting unit during the second quarter of 2018.

At December 31, 2019, no goodwill was reported on the balance sheet.

#### ***Long-Lived Assets Other than Goodwill***

Long-lived assets other than goodwill consist of property and equipment and intangible assets that have determinable and indefinite lives. The Company makes judgments and estimates regarding the carrying amount of these assets, including amounts to be capitalized, depreciation and amortization methods to be applied, estimated useful lives, and possible impairments. Property and equipment and intangible assets with determinable lives are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable.

For property and equipment, events or circumstances indicating possible impairment may include a significant decrease in market value or a significant change in the business climate. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss is the excess of the asset's carrying amount over its fair value. Fair value is generally determined using an appraisal by an independent valuation firm or by using a discounted cash flow analysis.

For intangible assets with definite lives, events or circumstances indicating possible impairment may include an adverse change in the extent or manner in which the asset is being used or a change in the assessment of future operations. The Company assesses the recoverability of the carrying amount by preparing estimates of future revenue, margins, and cash flows. If the sum of expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, an impairment loss is recognized. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value. Fair value of these assets may be determined by a variety of methodologies, including discounted cash flows.

Intangible assets with indefinite lives are not subject to amortization, but are tested for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would indicate a potential impairment. These circumstances may include, but are not limited to, a significant adverse change in the business climate, unanticipated competition, or a change in projected operations or results of a reporting unit.

The Company assesses whether an indefinite lived intangible impairment exists using both qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of the indefinite lived intangible is less than its carrying amount. If, based on this qualitative assessment, it is determined that it is not more likely than not that the fair value of the indefinite lived intangible is less than its carrying amount, the Company does not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the indefinite-lived intangible asset is impaired or if the Company elects to not perform a qualitative assessment, the Company then performs the quantitative impairment test. The quantitative impairment test for an indefinite-lived intangible asset consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Fair value of these assets may be determined by a variety of methodologies, including discounted cash flows.

The development of future net undiscounted cash flow projections requires management projections of future sales and profitability trends and the estimation of remaining useful lives of assets. These projections are consistent with those projections the Company uses to internally manage operations. When potential impairment is identified, a discounted cash flow valuation model similar to that used to value goodwill at the reporting unit level, incorporating discount rates commensurate with risks associated with each asset, is used to determine the fair value of the asset in order to measure potential impairment. Discount rates are determined by using a WACC. Estimated revenue and WACC assumptions are the most sensitive and susceptible to change in the long-lived asset analysis as they require significant management judgment. The Company believes the assumptions used are reflective of what a market participant would have used in calculating fair value.

Valuation methodologies utilized to evaluate long-lived assets other than goodwill for impairment were consistent with prior periods. Specific assumptions discussed above are updated at each test date to consider current industry and Company-specific risk factors from the perspective of a market participant. The current business climate is subject to evolving market conditions and requires significant management judgment to interpret the potential impact to the Company's assumptions. To the extent that changes in the current business

climate result in adjustments to management projections, impairment losses may be recognized in future periods.

There are significant inherent uncertainties and judgments involved in estimating fair value. The Company cannot predict the occurrence of events or circumstances that could adversely affect the fair value of the asset group. Such events may include, but are not limited to, deterioration of the economic environment, increases in the Company's WACC, material negative changes in relationships with significant customers, reductions in valuations of other public companies in the Company's industry, or strategic decisions made in response to economic and competitive conditions. If actual results are not consistent with the Company's current estimates and assumptions, additional impairment of long-lived assets could be required.

In 2019, 2018, and 2017, while testing annual indefinite lived intangible assets for impairment, the Company first assessed qualitative factors to determine whether it was necessary to perform the impairment test. Based on its qualitative assessment, the Company concluded there was no indication of the need for an impairment of indefinite lived intangibles, and therefore no further testing was required.

No impairment was recorded for property and equipment and intangible assets with determinable or indefinite lives during 2019 and 2018.

### ***Fair Value Measurements***

Fair value is defined as the amount that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between unrelated third party market participants at the measurement date. In determination of fair value measurements for assets and liabilities, the Company considers the principal, or most advantageous, market and assumptions that market participants would use when pricing the asset or liability. The Company categorizes financial assets and liabilities using a three-tiered fair value hierarchy, based upon the nature of the inputs used in the determination of fair value. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability and may be observable or unobservable. Significant judgments and estimates are required, particularly when inputs are based on pricing for similar assets or liabilities, pricing in non-active markets, or when unobservable inputs are required.

### ***Income Taxes***

The Company's tax provision is subject to judgments and estimates necessitated by the complexity of existing regulatory tax statutes and the effect of these upon the Company due to operations in multiple tax jurisdictions. Income tax expense is based on taxable income, statutory tax rates, and tax planning opportunities available in the various jurisdictions in which the Company operates. The Company's income tax expense will fluctuate from year to year as the amount of pretax income fluctuates. Changes in tax laws and the Company's profitability within and across the jurisdictions

may impact the Company's tax liability. While the annual tax provision is based on the best information available to the Company at the time of preparation, several years may elapse before the ultimate tax liabilities are determined.

The Company uses the liability method in accounting for income taxes. Deferred tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities and are measured using the tax rates expected to be in effect when the differences reverse. Deferred tax assets are also recognized for operating loss and tax credit carry forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is used to reduce deferred tax assets when uncertainty exists regarding their realization.

A valuation allowance is recorded to reduce previously recorded tax assets when it becomes more likely than not such assets will not be realized. The Company evaluates, at least annually, net operating loss carry forwards and other net deferred tax assets and considers all available evidence, both positive and negative, to determine whether a valuation allowance is necessary relative to net operating loss carry forwards and other net deferred tax assets. In making this determination, the Company considers cumulative losses in recent years as significant negative evidence. The Company considers recent years to mean the current year plus the two preceding years. The Company considers the recent cumulative income or loss position of its filings groups as objectively verifiable evidence for the projection of future income, which consists primarily of determining the average of the pre-tax income of the current and prior two years after adjusting for certain items not indicative of future performance. Based on this analysis, the Company determines whether a valuation allowance is necessary.

In assessing the need for a valuation allowance in the second quarter of 2018, the Company considered all available objective and verifiable evidence, both positive and negative, including historical levels of pre-tax income (loss) both on a consolidated basis and tax reporting entity basis, legislative developments, and expectations and risks associated with estimates of future pre-tax income. As a result of this analysis, the Company determined that it is more likely than not that it will not realize the benefits of certain deferred tax assets and, therefore, recorded a valuation allowance against the carrying value of net deferred tax assets, except for deferred tax liabilities related to non-amortizable intangible assets and certain state jurisdictions. As all available evidence should be taken into consideration when assessing the need for a valuation allowance, the subsequent events that occurred in the first quarter of 2019 provided a source of income to support the release of \$11.5 million of the valuation allowance. As such, the Company reversed this portion of the valuation allowance during the fourth quarter of 2018.

The Company periodically identifies and evaluates uncertain tax positions. This process considers the amounts and

probability of various outcomes that could be realized upon final settlement. Liabilities for uncertain tax positions are based on a two-step process. The actual benefits ultimately realized may differ from the Company's estimates. Changes in facts, circumstances, and new information may require a change in recognition and measurement estimates for certain individual tax positions. Any changes in estimates are recorded in results of operations in the period in which the change occurs. At December 31, 2019, the Company performed an evaluation of its various tax positions and concluded that it did not have significant uncertain tax positions requiring disclosure. The Company's policy is to record interest and penalties related to income tax matters as income tax expense.

#### ***Share-Based Compensation***

The Company has stock-based incentive plans which are authorized to issue stock options, restricted stock, and other incentive awards. Stock-based compensation expense for stock options and restricted stock is determined based upon estimated grant-date fair value. This fair value for the stock options is calculated using the Black-Scholes option-pricing model and is recognized as expense over the requisite service period. The option-pricing model requires the input of highly subjective assumptions, including expected stock price volatility and expected option life. For all stock-based incentive plans, the Company estimates an expected forfeiture

rate and recognizes expense only for those shares expected to vest. The estimated forfeiture rate is based on historical experience. To the extent actual forfeiture rates differ from the estimate, stock-based compensation expense is adjusted accordingly.

#### ***Loss Contingencies***

The Company is subject to a variety of loss contingencies that could arise during the Company's conduct of business. Management considers the likelihood of a loss or impairment of an asset or the incurrence of a liability, as well as the Company's ability to reasonably estimate the amount of loss, in determining potential loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred or an asset has been impaired and the amount of loss can be reasonably estimated. Accruals for loss contingencies have not been recorded during the past three years. The Company regularly evaluates current information available to determine whether such accruals should be made or adjusted.

#### **Recent Accounting Pronouncements**

Recent accounting pronouncements which may impact the Company are described in Note 2 – "Summary of Significant Accounting Policies" in Part II, Item 8 – "Financial Statements and Supplementary Data" of this Annual Report.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

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

**Foreign Currency Exchange Risk**

The Company presently has limited exposure to foreign currency risk. As a global company, Flotek operates in seven domestic and international markets. Flotek's functional currency is primarily the U.S. dollar. During 2019, approximately 4.0% of revenue was denominated in non-U.S. dollar currencies and virtually all assets and liabilities of the Company are denominated in U.S. dollars. However, as the

Company expands its international operations, non-U.S. denominated activity is likely to increase. The Company has historically performed no swaps and no foreign currency hedges. The Company may utilize swaps or foreign currency hedges in the future.

**Commodity Risk**

The Company purchases raw materials derived from citrus oils and, therefore, has a commodity risk inherent in orange harvests. In recent years, citrus greening has disrupted citrus fruit production in Florida and Brazil which caused raw material feedstock cost to increase. Tropical storms and hurricanes, as experienced during 2017, can also impact the future citrus crop yields in growing regions. The Company believes that adequate global supply is available to meet the Company's needs. The Company primarily relies upon long-term strategic supply relationships to meet many of its raw material needs which are expected to remain in place for the foreseeable future. Price increases have been passed along to the Company's customers, where applicable. The Company presently does not have any commodity futures contracts but may consider utilizing forms of hedging from time to time in the future.

## **Item 8. Financial Statements and Supplementary Data.**

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of  
Flotek Industries, Inc.

#### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Flotek Industries, Inc. and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

#### ***Change in Accounting Principle***

As discussed in Note 6 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of Accounting Standards Codification Topic No. 842.

#### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

#### ***Definition and Limitations of Internal Control Over Financial Reporting***

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial

statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ MOSS ADAMS LLP

Houston, Texas  
March 6, 2020

We have served as the Company's auditor since 2017.

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

|                                                                                                                                                                                                                                  | December 31,      |                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                                                                                                                                                                  | 2019              | 2018              |
| <b>ASSETS</b>                                                                                                                                                                                                                    |                   |                   |
| Current assets:                                                                                                                                                                                                                  |                   |                   |
| Cash and cash equivalents                                                                                                                                                                                                        | \$ 100,575        | \$ 3,044          |
| Restricted cash                                                                                                                                                                                                                  | 663               | —                 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,527 and \$1,190 at December 31, 2019 and 2018, respectively                                                                                                   | 15,638            | 37,047            |
| Inventories, net                                                                                                                                                                                                                 | 21,697            | 27,289            |
| Income taxes receivable                                                                                                                                                                                                          | 631               | 3,161             |
| Assets held for sale                                                                                                                                                                                                             | —                 | 118,470           |
| Other current assets                                                                                                                                                                                                             | 13,191            | 5,771             |
| Total current assets                                                                                                                                                                                                             | 152,395           | 194,782           |
| Property and equipment, net                                                                                                                                                                                                      | 39,829            | 45,485            |
| Operating lease right-of-use assets                                                                                                                                                                                              | 16,388            | —                 |
| Deferred tax assets, net                                                                                                                                                                                                         | 152               | 18,663            |
| Other intangible assets, net                                                                                                                                                                                                     | 23,083            | 26,827            |
| Other long-term assets                                                                                                                                                                                                           | —                 | 126               |
| <b>TOTAL ASSETS</b>                                                                                                                                                                                                              | <b>\$ 231,847</b> | <b>\$ 285,883</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                                      |                   |                   |
| Current liabilities:                                                                                                                                                                                                             |                   |                   |
| Accounts payable                                                                                                                                                                                                                 | \$ 16,231         | \$ 15,011         |
| Accrued liabilities                                                                                                                                                                                                              | 24,552            | 10,335            |
| Interest payable                                                                                                                                                                                                                 | —                 | 8                 |
| Liabilities held for sale                                                                                                                                                                                                        | —                 | 9,174             |
| Current portion of lease liabilities                                                                                                                                                                                             | 541               | —                 |
| Long-term debt, classified as current                                                                                                                                                                                            | —                 | 49,731            |
| Total current liabilities and total liabilities                                                                                                                                                                                  | 41,324            | 84,259            |
| Long-term operating lease liabilities                                                                                                                                                                                            | 16,973            | —                 |
| Long-term finance lease liabilities                                                                                                                                                                                              | 158               | —                 |
| Deferred tax liabilities, net                                                                                                                                                                                                    | 116               | —                 |
| <b>TOTAL LIABILITIES</b>                                                                                                                                                                                                         | <b>58,571</b>     | <b>84,259</b>     |
| Commitments and contingencies (Note16)                                                                                                                                                                                           |                   |                   |
| Stockholders' Equity:                                                                                                                                                                                                            |                   |                   |
| Preferred stock, \$0.0001 par value, 100,000 shares authorized; no shares issued and outstanding                                                                                                                                 | —                 | —                 |
| Common stock, \$0.0001 par value, 80,000,000 shares authorized; 63,656,897 shares issued and 57,882,396 shares outstanding at December 31, 2019; 62,162,875 shares issued and 57,342,279 shares outstanding at December 31, 2018 | 6                 | 6                 |
| Additional paid-in capital                                                                                                                                                                                                       | 347,564           | 343,536           |
| Accumulated other comprehensive income (loss)                                                                                                                                                                                    | (966)             | (1,116)           |
| Retained earnings (accumulated deficit)                                                                                                                                                                                          | (139,844)         | (107,565)         |
| Treasury stock, at cost; 4,145,481 and 3,770,224 shares at December 31, 2019 and 2018, respectively                                                                                                                              | (33,484)          | (33,237)          |
| Total stockholders' equity                                                                                                                                                                                                       | 173,276           | 201,624           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                                | <b>\$ 231,847</b> | <b>\$ 285,883</b> |

See accompanying Notes to Consolidated Financial Statements.

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

|                                                                                           | Year ended December 31, |                    |                    |
|-------------------------------------------------------------------------------------------|-------------------------|--------------------|--------------------|
|                                                                                           | 2019                    | 2018               | 2017               |
| <b>Revenue</b>                                                                            | \$ 119,353              | \$ 177,773         | \$ 243,106         |
| <b>Costs and expenses:</b>                                                                |                         |                    |                    |
| Operating expenses (excluding depreciation and amortization)                              | 149,225                 | 159,808            | 188,744            |
| Corporate general and administrative                                                      | 27,975                  | 31,467             | 41,492             |
| Depreciation and amortization                                                             | 8,465                   | 9,216              | 9,768              |
| Research and development                                                                  | 8,863                   | 10,356             | 13,130             |
| (Gain) loss on disposal of long-lived assets                                              | 1,450                   | (443)              | 292                |
| Impairment of goodwill                                                                    | —                       | 37,180             | —                  |
| Total costs and expenses                                                                  | 195,978                 | 247,584            | 253,426            |
| <b>Loss from operations</b>                                                               | (76,625)                | (69,811)           | (10,320)           |
| <b>Other (expense) income:</b>                                                            |                         |                    |                    |
| Interest expense                                                                          | (2,019)                 | (2,866)            | (2,168)            |
| Loss on sale of business                                                                  | —                       | (360)              | —                  |
| Loss on write-down of assets held for sale                                                | —                       | (2,580)            | —                  |
| Other (expense) income, net                                                               | 1,708                   | (5,040)            | 1,096              |
| Total other expense                                                                       | (311)                   | (10,846)           | (1,072)            |
| <b>Loss before income taxes</b>                                                           | (76,936)                | (80,657)           | (11,392)           |
| Income tax benefit (expense)                                                              | 201                     | 7,216              | (6,112)            |
| <b>Loss from continuing operations</b>                                                    | (76,735)                | (73,441)           | (17,504)           |
| <b>Income (loss) from discontinued operations, net of tax</b>                             | 44,456                  | 2,743              | (9,891)            |
| <b>Net loss</b>                                                                           | (32,279)                | (70,698)           | (27,395)           |
| <b>Net loss attributable to noncontrolling interests</b>                                  | —                       | 358                | —                  |
| <b>Net loss attributable to Flotek Industries, Inc. (Flotek)</b>                          | <u>\$ (32,279)</u>      | <u>\$ (70,340)</u> | <u>\$ (27,395)</u> |
| <b>Amounts attributable to Flotek shareholders:</b>                                       |                         |                    |                    |
| Loss from continuing operations                                                           | \$ (76,735)             | \$ (73,083)        | \$ (17,504)        |
| Income (loss) from discontinued operations, net of tax                                    | 44,456                  | 2,743              | (9,891)            |
| Net loss attributable to Flotek                                                           | <u>\$ (32,279)</u>      | <u>\$ (70,340)</u> | <u>\$ (27,395)</u> |
| <b>Basic earnings (loss) per common share:</b>                                            |                         |                    |                    |
| Continuing operations                                                                     | \$ (1.31)               | \$ (1.26)          | \$ (0.30)          |
| Discontinued operations, net of tax                                                       | 0.76                    | 0.05               | (0.17)             |
| Basic earnings (loss) per common share                                                    | <u>\$ (0.55)</u>        | <u>\$ (1.21)</u>   | <u>\$ (0.47)</u>   |
| <b>Diluted earnings (loss) per common share:</b>                                          |                         |                    |                    |
| Continuing operations                                                                     | \$ (1.31)               | \$ (1.26)          | \$ (0.30)          |
| Discontinued operations, net of tax                                                       | 0.76                    | 0.05               | (0.17)             |
| Diluted earnings (loss) per common share                                                  | <u>\$ (0.55)</u>        | <u>\$ (1.21)</u>   | <u>\$ (0.47)</u>   |
| <b>Weighted average common shares:</b>                                                    |                         |                    |                    |
| Weighted average common shares used in computing basic earnings (loss) per common share   | 58,750                  | 57,995             | 57,580             |
| Weighted average common shares used in computing diluted earnings (loss) per common share | 58,750                  | 57,995             | 57,580             |

See accompanying Notes to Consolidated Financial Statements.

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

|                                                        | Years ended December 31, |             |             |
|--------------------------------------------------------|--------------------------|-------------|-------------|
|                                                        | 2019                     | 2018        | 2017        |
| Loss from continuing operations                        | \$ (76,735)              | \$ (73,441) | \$ (17,504) |
| Income (loss) from discontinued operations, net of tax | 44,456                   | 2,743       | (9,891)     |
| Net loss                                               | (32,279)                 | (70,698)    | (27,395)    |
| Other comprehensive income (loss):                     |                          |             |             |
| Foreign currency translation adjustment                | 150                      | (232)       | 72          |
| Comprehensive loss                                     | (32,129)                 | (70,930)    | (27,323)    |
| Net loss attributable to noncontrolling interests      | —                        | 358         | —           |
| Comprehensive loss attributable to Flotek              | \$ (32,129)              | \$ (70,572) | \$ (27,323) |

See accompanying Notes to Consolidated Financial Statements.

**FLOTEK INDUSTRIES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**YEARS ENDED**  
**DECEMBER 31, 2019, 2018 AND 2017**  
**(in thousands)**

|                                                     | Common Stock  |             | Treasury Stock |                    | Additional        | Accumulated     | Retained            | Non-        | Total             |
|-----------------------------------------------------|---------------|-------------|----------------|--------------------|-------------------|-----------------|---------------------|-------------|-------------------|
|                                                     | Shares        | Par         | Shares         | Cost               | Paid-in           | Other           | Earnings            | controlling | Stockholders'     |
|                                                     | Issued        | Value       |                |                    | Capital           | Comprehensive   | (Accumulated        | Interests   | Equity            |
|                                                     |               |             |                |                    |                   | Income (Loss)   | Deficit)            |             |                   |
| <b>Balance, December 31, 2016</b>                   | 59,685        | \$ 6        | 2,029          | \$ (20,269)        | \$ 318,392        | \$ (956)        | \$ (9,830)          | \$ 358      | \$ 287,701        |
| Net loss                                            | —             | —           | —              | —                  | —                 | —               | (27,395)            | —           | (27,395)          |
| Foreign currency translation adjustment             | —             | —           | —              | —                  | —                 | 72              | —                   | —           | 72                |
| Stock issued under employee stock purchase plan     | —             | —           | (113)          | —                  | 654               | —               | —                   | —           | 654               |
| Common stock issued in payment of accrued liability | —             | —           | —              | —                  | 188               | —               | —                   | —           | 188               |
| Stock options exercised                             | 663           | —           | —              | —                  | 5,884             | —               | —                   | —           | 5,884             |
| Restricted stock awards granted                     | 275           | —           | —              | —                  | —                 | —               | —                   | —           | —                 |
| Restricted stock forfeited                          | —             | —           | 122            | —                  | —                 | —               | —                   | —           | —                 |
| Treasury stock purchased                            | —             | —           | 200            | (1,729)            | —                 | —               | —                   | —           | (1,729)           |
| Stock surrendered for exercise of stock options     | —             | —           | 478            | (5,863)            | —                 | —               | —                   | —           | (5,863)           |
| Stock compensation expense                          | —             | —           | —              | —                  | 10,949            | —               | —                   | —           | 10,949            |
| Repurchase of common stock                          | —             | —           | 905            | (5,203)            | —                 | —               | —                   | —           | (5,203)           |
| <b>Balance, December 31, 2017</b>                   | 60,623        | \$ 6        | 3,621          | \$ (33,064)        | \$ 336,067        | \$ (884)        | \$ (37,225)         | \$ 358      | \$ 265,258        |
| Net loss                                            | —             | —           | —              | —                  | —                 | —               | (70,340)            | (358)       | (70,698)          |
| Foreign currency translation adjustment             | —             | —           | —              | —                  | —                 | (232)           | —                   | —           | (232)             |
| Stock issued under employee stock purchase plan     | —             | —           | (111)          | —                  | 341               | —               | —                   | —           | 341               |
| Restricted stock awards granted                     | 1,540         | —           | —              | —                  | —                 | —               | —                   | —           | —                 |
| Restricted stock forfeited                          | —             | —           | 158            | —                  | —                 | —               | —                   | —           | —                 |
| Treasury stock purchased                            | —             | —           | 102            | (173)              | —                 | —               | —                   | —           | (173)             |
| Stock compensation expense                          | —             | —           | —              | —                  | 7,128             | —               | —                   | —           | 7,128             |
| <b>Balance, December 31, 2018</b>                   | 62,163        | \$ 6        | 3,770          | \$ (33,237)        | \$ 343,536        | \$ (1,116)      | \$ (107,565)        | \$ —        | \$ 201,624        |
| Net loss                                            | —             | —           | —              | —                  | —                 | —               | (32,279)            | —           | (32,279)          |
| Foreign currency translation adjustment             | —             | —           | —              | —                  | —                 | 150             | —                   | —           | 150               |
| Stock issued under employee stock purchase plan     | —             | —           | (18)           | —                  | 35                | —               | —                   | —           | 35                |
| Restricted stock awards granted                     | 924           | —           | —              | —                  | —                 | —               | —                   | —           | —                 |
| Restricted stock forfeited                          | —             | —           | 299            | —                  | —                 | —               | —                   | —           | —                 |
| Restricted stock units granted                      | 570           | —           | —              | —                  | —                 | —               | —                   | —           | —                 |
| Treasury stock purchased                            | —             | —           | 94             | (247)              | —                 | —               | —                   | —           | (247)             |
| Stock compensation expense                          | —             | —           | —              | —                  | 3,993             | —               | —                   | —           | 3,993             |
| <b>Balance, December 31, 2019</b>                   | <u>63,657</u> | <u>\$ 6</u> | <u>4,145</u>   | <u>\$ (33,484)</u> | <u>\$ 347,564</u> | <u>\$ (966)</u> | <u>\$ (139,844)</u> | <u>\$ —</u> | <u>\$ 173,276</u> |

See accompanying Notes to Consolidated Financial Statements.

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

|                                                                                                                  | Years ended December 31, |                 |                 |
|------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------|-----------------|
|                                                                                                                  | 2019                     | 2018            | 2017            |
| <b>Cash flows from operating activities:</b>                                                                     |                          |                 |                 |
| Net loss attributable to Flotek Industries, Inc. (Flotek)                                                        | \$ (32,279)              | \$ (70,340)     | \$ (27,395)     |
| Income (loss) from discontinued operations, net of tax                                                           | 44,456                   | 2,743           | (9,891)         |
| Loss from continuing operations                                                                                  | (76,735)                 | (73,083)        | (17,504)        |
| Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities: |                          |                 |                 |
| Depreciation and amortization                                                                                    | 8,465                    | 9,216           | 9,768           |
| Amortization of deferred financing costs                                                                         | 1,428                    | 400             | 472             |
| Provision for doubtful accounts                                                                                  | 512                      | 839             | 157             |
| Provision for excess and obsolete inventory                                                                      | 5,659                    | 2,418           | 388             |
| Loss on sale of business                                                                                         | —                        | 360             | —               |
| Loss on write-down of assets held for sale                                                                       | —                        | 2,580           | —               |
| (Gain) loss on sale of assets                                                                                    | 1,450                    | (443)           | 292             |
| Impairment of goodwill                                                                                           | —                        | 37,180          | —               |
| Stock compensation expense                                                                                       | 4,235                    | 7,050           | 10,643          |
| Deferred income tax (benefit) provision                                                                          | 18,307                   | (5,950)         | 181             |
| Reduction in tax benefit related to share-based awards                                                           | 24                       | 709             | 1,989           |
| Non-cash lease expense                                                                                           | 740                      | —               | —               |
| Changes in current assets and liabilities:                                                                       |                          |                 |                 |
| Accounts receivable, net                                                                                         | 20,993                   | (2,606)         | 4,076           |
| Inventories                                                                                                      | (65)                     | 2,597           | (3,442)         |
| Income taxes receivable                                                                                          | 2,546                    | (1,116)         | 8,008           |
| Other current assets                                                                                             | (8,359)                  | 3,177           | 12,001          |
| Accounts payable                                                                                                 | 1,131                    | 4,631           | (8,528)         |
| Accrued liabilities                                                                                              | 908                      | (8,740)         | (6,175)         |
| Interest payable                                                                                                 | (8)                      | (35)            | 19              |
| Net cash (used in) provided by operating activities                                                              | (18,769)                 | (20,816)        | 12,345          |
| <b>Cash flows from investing activities:</b>                                                                     |                          |                 |                 |
| Capital expenditures                                                                                             | (2,411)                  | (3,559)         | (4,197)         |
| Proceeds from sale of businesses                                                                                 | 169,722                  | 1,665           | 18,490          |
| Proceeds from sale of assets                                                                                     | 240                      | 1,387           | 689             |
| Purchase of patents and other intangible assets                                                                  | (614)                    | (1,602)         | (456)           |
| Net cash provided (used in) by investing activities                                                              | 166,937                  | (2,109)         | 14,526          |
| <b>Cash flows from financing activities:</b>                                                                     |                          |                 |                 |
| Repayments of indebtedness                                                                                       | —                        | —               | (9,833)         |
| Borrowings on revolving credit facility                                                                          | 42,984                   | 277,599         | 383,160         |
| Repayments on revolving credit facility                                                                          | (92,715)                 | (255,818)       | (393,776)       |
| Debt issuance costs                                                                                              | —                        | (111)           | (579)           |
| Payments for finance leases                                                                                      | (51)                     | —               | —               |
| Purchase of treasury stock                                                                                       | (247)                    | (173)           | (1,729)         |
| Proceeds from sale of common stock                                                                               | 35                       | 341             | 654             |
| Repurchase of common stock                                                                                       | —                        | —               | (5,203)         |
| Proceeds from exercise of stock options                                                                          | —                        | —               | 21              |
| Loss from noncontrolling interest                                                                                | —                        | (358)           | —               |
| Net cash (used in) provided financing activities                                                                 | (49,994)                 | 21,480          | (27,285)        |
| <b>Discontinued operations:</b>                                                                                  |                          |                 |                 |
| Net cash provided by (used in) operating activities                                                              | (322)                    | 1,296           | 4,102           |
| Net cash provided by (used in) investing activities                                                              | 337                      | (1,303)         | (4,078)         |
| Net cash flows provided by (used in) provided by discontinued operations                                         | 15                       | (7)             | 24              |
| Effect of changes in exchange rates on cash and cash equivalents                                                 | 5                        | (88)            | 151             |
| <b>Net change in cash, cash equivalents and restricted cash</b>                                                  | 98,194                   | (1,540)         | (239)           |
| Cash, cash equivalents and restricted cash at beginning of year                                                  | 3,044                    | 4,584           | 4,823           |
| <b>Cash, cash equivalents and restricted cash at end of year</b>                                                 | <u>\$ 101,238</u>        | <u>\$ 3,044</u> | <u>\$ 4,584</u> |

See accompanying Notes to Consolidated Financial Statements.

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

**Note 1 — 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. Flotek also supplied high value compounds to companies that make food and beverages, cleaning products, cosmetics, and other products that are sold in consumer and industrial markets, classified as discontinued operations at December 31, 2018.

The Company’s oilfield business designs, develops, manufactures, packages, distributes, delivers, and markets reservoir-centric fluid systems, including specialty and conventional chemistries, for use in oil and gas well drilling, cementing, completion, remediation, and stimulation activities designed to maximize recovery in both new and mature fields. Activities in this segment also include construction and management of automated material handling facilities as well as management of loading facilities and blending operations for oilfield services companies. In the segment reported as discontinued operations at December 31, 2018, the Company processed citrus oil to produce (1) high

value compounds used as additives by companies in the flavors and fragrances markets and (2) environmentally friendly chemistries for use in numerous industries around the world, including the oil and gas industry.

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

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

**Note 2 — Summary of Significant Accounting Policies**

***Basis of Presentation***

The Company’s consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”).

The consolidated financial statements include the accounts of Flotek Industries, Inc. and all wholly-owned subsidiary corporations. Where Flotek owns less than 100% of the share capital of its subsidiaries, but is still considered to have sufficient ownership to control the business, results of the business operations are consolidated within the Company’s financial statements. The ownership interests held by other parties are shown as noncontrolling interests.

During the fourth quarter of 2018, the Company classified the Consumer and Industrial Chemistry Technologies segment as held for sale based on management’s intention to sell this business, which occurred in January 2019. The Company’s historical financial statements have been revised to present the operating results of the Consumer and Industrial Chemistry Technologies segment as discontinued operations. The results of operations of this segment are presented as “Income (loss) from discontinued operations” in the statement of operations and the related cash flows of this segment have been reclassified to discontinued operations for all periods presented. The assets and liabilities of the Consumer and Industrial Chemistry Technologies segment have been reclassified to “Assets held for sale” and “Liabilities held for

sale”, respectively, in the consolidated balance sheet for all periods presented.

During 2017, the Company completed the sale or disposal of the assets and transfer or liquidation of liabilities and obligations of each of the Drilling Technologies and Production Technologies segments.

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

***Cash Equivalents***

Cash equivalents consist of highly liquid investments with maturities of three months or less at the date of purchase.

***Cash Management***

The Company uses a controlled disbursement account for its main cash account. Under this system, outstanding checks can be in excess of the cash balances at the bank before the disbursement account is funded, creating a book overdraft. Book overdrafts on this account are presented as a current liability in accounts payable in the consolidated balance sheets.

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

***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable arise from product sales and services and are stated at estimated net realizable value. This value incorporates an allowance for doubtful accounts to reflect any loss anticipated on accounts receivable balances. The Company regularly evaluates its accounts receivable to estimate amounts that will not be collected and records the appropriate provision for doubtful accounts as a charge to operating expenses. The allowance for doubtful accounts is based on a combination of the age of the receivables, individual customer circumstances, credit conditions, and historical

write-offs and collections. The Company writes off specific accounts receivable when they are determined to be uncollectible.

The majority of the Company's customers are engaged in the energy industry. The cyclical nature of the energy industry may affect customers' operating performance and cash flows, which directly impact the Company's ability to collect on outstanding obligations. Additionally, certain customers are located in international areas that are inherently subject to risks of economic, political, and civil instability, which can impact the collectability of receivables.

Changes in the allowance for doubtful accounts for continuing operations are as follows (in thousands):

|                                                               | Years ended December 31, |                 |               |
|---------------------------------------------------------------|--------------------------|-----------------|---------------|
|                                                               | 2019                     | 2018            | 2017          |
| Balance, beginning of year                                    | \$ 1,190                 | \$ 673          | \$ 579        |
| Charged to provision for doubtful accounts, net of recoveries | 512                      | 839             | 157           |
| Write-offs                                                    | (175)                    | (322)           | (63)          |
| Balance, end of year                                          | <u>\$ 1,527</u>          | <u>\$ 1,190</u> | <u>\$ 673</u> |

***Inventories***

Inventories consist of raw materials, work-in-process, and finished goods and are stated at the lower of cost, determined using the weighted-average cost method, or net realizable value. Finished goods inventories include raw materials, direct labor, and production overhead. The Company quarterly reviews inventories on hand and current market conditions to determine if the cost of finished goods inventories exceeds current market prices and impairs the cost basis of the inventory accordingly. Obsolete inventory or inventory in excess of management's estimated usage requirement is written down to its estimated market value if those amounts are determined to be less than cost.

Property and equipment are reviewed for impairment on a quarterly basis or whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. Indicative events or circumstances include, but are not limited to, matters such as a significant decline in market value or a significant change in business climate. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows from the use of the asset and its eventual disposition. The amount of impairment loss recognized is the excess of the asset's carrying amount over its fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less cost to sell. Upon sale or other disposition of an asset, the Company recognizes a gain or loss on disposal measured as the difference between the net carrying amount of the asset and the net proceeds received.

***Property and Equipment***

Property and equipment are stated at cost. The cost of ordinary maintenance and repair is charged to operating expense, while replacement of critical components and major improvements are capitalized. Depreciation or amortization of property and equipment, including assets held under capital leases, is calculated using the straight-line method over the asset's estimated useful life as follows:

|                                      |            |
|--------------------------------------|------------|
| Buildings and leasehold improvements | 2-30 years |
| Machinery and equipment              | 7-10 years |
| Furniture and fixtures               | 3 years    |
| Transportation equipment             | 2-5 years  |
| Computer equipment and software      | 3-7 years  |

***Internal Use Computer Software Costs***

Direct costs incurred to purchase and develop computer software for internal use are capitalized during the application development and implementation stages. These software costs have been primarily for enterprise-level business and finance software that is customized to meet the Company's specific operational needs. Capitalized costs are included in property and equipment and are amortized on a straight-line basis over the estimated useful life of the software beginning when the software project is substantially complete and placed in service. Costs incurred during the preliminary project stage and costs for training, data conversion, and maintenance are expensed as incurred.

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The Company amortizes software costs using the straight-line method over the expected life of the software, generally three to seven years. The unamortized amount of capitalized software was \$1.0 million at December 31, 2019.

***Goodwill***

Goodwill is the excess of cost of an acquired entity over the amounts assigned to identifiable assets acquired and liabilities assumed in a business combination. Goodwill is not subject to amortization, but is tested for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would indicate a potential impairment. These circumstances may include an adverse change in the business climate or a change in the assessment of future operations of a reporting unit.

The Company assesses whether a goodwill impairment exists using both qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, based on this qualitative assessment, it is determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company does not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if the Company elects not to perform a qualitative assessment, a quantitative impairment test is performed to determine whether goodwill impairment exists at the reporting unit.

The quantitative impairment test, used to identify both the existence of impairment and the amount of impairment loss, compares the estimated fair value of each reporting unit with goodwill to its carrying amount, including goodwill. To determine fair value estimates, the Company uses the income approach based on discounted cash flow analyses, combined, when appropriate, with a market-based approach. The market-based approach considers valuation comparisons of recent public sale transactions of similar businesses and earnings multiples of publicly traded businesses operating in industries consistent with the reporting unit. If the carrying amount of a reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the amount of goodwill allocated to that reporting unit.

***Other Intangible Assets***

The Company's other intangible assets have finite and indefinite lives and consist of customer relationships, trademarks, brand names, and purchased patents.

The cost of intangible assets with finite lives is amortized using the straight-line method over the estimated period of economic

benefit, ranging from two to 95 years. Asset lives are adjusted whenever there is a change in the estimated period of economic benefit. No residual value has been assigned to these intangible assets.

Intangible assets with finite lives are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. These conditions may include a change in the extent or manner in which the asset is being used or a change in future operations. The Company assesses the recoverability of the carrying amount by preparing estimates of future revenue, margins, and cash flows. If the sum of expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, an impairment loss is recognized. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value. Fair value of these assets may be determined by a variety of methodologies, including discounted cash flow models.

Intangible assets with indefinite lives are not subject to amortization, but are tested for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would indicate a potential impairment. These circumstances may include, but are not limited to, a significant adverse change in the business climate, unanticipated competition, or a change in projected operations or results of a reporting unit.

The Company assesses whether an indefinite lived intangible impairment exists using both qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of the indefinite lived intangible is less than its carrying amount. If, based on this qualitative assessment, it is determined that it is not more likely than not that the fair value of the indefinite lived intangible is less than its carrying amount, the Company does not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the indefinite-lived intangible asset is impaired or if the Company elects to not perform a qualitative assessment, the Company then performs the quantitative impairment test. The quantitative impairment test for an indefinite-lived intangible asset consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Fair value of these assets may be determined by a variety of methodologies, including discounted cash flows.

***Business Combinations***

The Company includes the results of operations of its acquisitions in its consolidated results, prospectively from the date of acquisition. Acquisitions are accounted for by applying the acquisition method. The Company allocates the fair value of purchase consideration to the assets acquired, liabilities

assumed, and any noncontrolling interests in the acquired entity generally based on their fair values at the acquisition date. The excess of the fair value of purchase consideration over the fair value of these assets acquired, liabilities assumed, and any noncontrolling interests in the acquired entity is recorded as goodwill. The primary items that generate goodwill include the value of the synergies between the acquired company and Flotek and the value of the acquired assembled workforce. Acquisition-related expenses are recognized separately from the business acquisition and are recognized as expenses as incurred.

#### ***Fair Value Measurements***

The Company categorizes financial assets and liabilities using a three-tier fair value hierarchy, based on the nature of the inputs used to determine fair value. Inputs refer broadly to assumptions market participants would use to value an asset or liability and may be observable or unobservable. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). “Level 1” measurements are measurements using quoted prices in active markets for identical assets and liabilities. “Level 2” measurements are measurements using quoted prices in markets that are not active or that are based on quoted prices for similar assets or liabilities. “Level 3” measurements are measurements that use significant unobservable inputs which require a company to develop its own assumptions. When determining the fair value of assets and liabilities, the Company uses the most reliable measurement available.

#### ***Revenue Recognition***

The Company recognizes revenues to depict the transfer of control of promised goods or services to its customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. Refer to Note 4 – “Revenue from Contracts with Customers” for further discussion on Revenue.

The Company recognizes revenue based on the Accounting Standards Codification (“ASC”) 606 five-step model when all of the following criteria have been met: (i) a contract with a customer exists, (ii) performance obligations have been identified, (iii) the price to the customer has been determined, (iv) the price to the customer has been allocated to the performance obligations, and (v) performance obligations are satisfied.

Products and services are sold with fixed or determinable prices. Certain sales include right of return provisions, which are considered when recognizing revenue and deferred accordingly. Deposits and other funds received in advance of delivery are deferred until the transfer of control is complete.

For certain contracts, the Company recognizes revenue under the percentage-of-completion method of accounting, measured by the percentage of “costs incurred to date” to the

“total estimated costs of completion.” This percentage is applied to the “total estimated revenue at completion” to calculate proportionate revenue earned to date. For the years ended December 31, 2019, 2018, and 2017, the percentage-of-completion revenue accounted for less than 0.1% of total revenue during the respective time periods.

As an accounting policy election, the Company excludes from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenues.

#### ***Foreign Currency Translation***

Financial statements of foreign subsidiaries are prepared using the currency of the primary economic environment of the foreign subsidiaries as the functional currency. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at exchange rates in effect as of the end of identified reporting periods. Revenue and expense transactions are translated using the average monthly exchange rate for the reporting period. Resultant translation adjustments are recognized as other comprehensive income (loss) within stockholders’ equity.

#### ***Comprehensive Income (Loss)***

Comprehensive income (loss) encompasses all changes in stockholders’ equity, except those arising from investments from and distributions to stockholders. The Company’s comprehensive income (loss) includes net income (loss) and foreign currency translation adjustments.

#### ***Research and Development Costs***

Expenditures for research activities relating to product development and improvement are charged to expense as incurred.

#### ***Income Taxes***

The Company uses the liability method in accounting for income taxes. Deferred tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities and are measured using the tax rates expected to be in effect when the differences reverse. Deferred tax assets and liabilities are recognized related to the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company’s assets and liabilities using statutory tax rates at the applicable year end. Deferred tax assets are also recognized for operating loss and tax credit carry forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations

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in the period that includes the enactment date. A valuation allowance is used to reduce deferred tax assets when uncertainty exists regarding their realization.

A valuation allowance is recorded to reduce previously recorded tax assets when it becomes more likely than not that such assets will not be realized. The Company evaluates, at least annually, net operating loss carry forwards and other net deferred tax assets and considers all available evidence, both positive and negative, to determine whether a valuation allowance is necessary relative to net operating loss carry forwards and other net deferred tax assets. In making this determination, the Company considers cumulative losses in recent years as significant negative evidence. The Company considers recent years to mean the current year plus the two preceding years. The Company considers the recent cumulative income or loss position as objectively verifiable evidence for the projection of future income, which consists primarily of determining the average of the pre-tax income of the current and prior two years after adjusting for certain items not indicative of future performance. Based on this analysis, the Company determines whether a valuation allowance is necessary.

Historically, U.S. Federal income taxes are not provided on unremitted earnings of subsidiaries operating outside the U.S. because it is the Company's intention to permanently reinvest undistributed earnings in the subsidiary. These earnings would become subject to income tax if they were remitted as dividends or loaned to a U.S. affiliate. Due to the 2017 Tax Act, U.S. federal transition taxes have been recorded at December 31, 2017, for a one-time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. Determination of the amount of unrecognized deferred U.S. income tax liability on these unremitted earnings is not practicable.

The Company has performed an evaluation and concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements.

The Company's policy is to record interest and penalties related to income tax matters as income tax expense.

***Earnings (Loss) Per Share***

Basic earnings (loss) per common share is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to common stockholders, adjusted for the effect of assumed conversions of convertible notes and preferred stock, by the weighted average number of common shares outstanding, including potentially dilutive common share equivalents, if the effect is dilutive. Potentially dilutive common shares equivalents consist of incremental shares of common stock issuable upon exercise of stock options and warrants,

settlement of restricted stock units, and conversion of convertible notes and convertible preferred stock.

***Debt Issuance Costs***

Costs related to debt issuance are capitalized and amortized as interest expense over the term of the related debt using the straight-line method, which approximates the effective interest method. Upon the repayment of debt, the Company accelerates the recognition of an appropriate amount of the costs as interest expense.

***Capitalization of Interest***

Interest costs are capitalized for qualifying in-process software development projects. Capitalization of interest commences when activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Interest costs are capitalized until the assets are ready for their intended use. Capitalized interest is added to the cost of the underlying assets and amortized over the estimated useful lives of the assets.

***Stock-Based Compensation***

Stock-based compensation expense for share-based payments, related to stock options, restricted stock awards, and restricted stock units, is recognized based on their grant-date fair values. The Company recognizes compensation expense, net of estimated forfeitures, on a straight-line basis over the requisite service period of the award. Estimated forfeitures are based on historical experience.

***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.

Significant items subject to estimates and assumptions include application of the carrying amount and useful lives of property and equipment and intangible assets, impairment assessments, share-based compensation expense, and valuation allowances for accounts receivable, inventories, and deferred tax assets.

***Assets and Liabilities Held for Sale***

The Company classifies disposal groups as held for sale in the period in which all of the following criteria are met: (1) management, having the authority to approve the action, commits to a plan to sell the disposal group; (2) the disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups; (3) an active program to locate a buyer or buyers and other actions required to complete the plan to sell the disposal group have been initiated; (4) the sale of the disposal group is probable, and transfer of the disposal group

is expected to qualify for recognition as a completed sale, within one year, except if events of circumstances beyond the Company's control extend the period of time required to sell the disposal group beyond one year; (5) the disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A disposal group that is classified as held for sale is initially measured at the lower of its carrying amount or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met.

Subsequent changes in the fair value of a disposal group less any costs to sell are reported as an adjustment to the carrying amount of the disposal group, as long as the new carrying amount does not exceed the carrying amount of the asset at the time it was initially classified as held for sale. Upon determining that a disposal group meets the criteria to be classified as held for sale, the Company reports the assets and liabilities of the disposal group for all periods presented in the line items assets held for sale and liabilities held for sale, respectively, in the consolidated balance sheets.

#### ***Discontinued Operations***

The results of operations of a component of the Company that can be clearly distinguished, operationally and for financial reporting purposes, that either has been disposed of or is classified as held for sale is reported in discontinued operations, if the disposal represents a strategic shift that has, or will have, a major effect on the Company's operations and financial results.

#### ***Reclassifications***

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

#### ***New Accounting Pronouncements***

##### ***(a) Application of New Accounting Standards***

Effective January 1, 2019, the Company adopted the accounting guidance in Accounting Standards Update ("ASU") No. 2016-02, "*Leases*" This standard (ASC 842) requires the recognition of Right of Use ("ROU") assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP (ASC 840). The Company adopted ASC 842 using the optional transition method. Consequently, the Company's reporting for the comparative periods presented prior to 2019 in the financial statements will continue to be in accordance with ASC 840. Upon adoption, the Company recorded operating lease ROU assets and corresponding operating lease liabilities, net of

deferred rent, of approximately \$18.4 million, representing the present value of future lease payments under operating leases with terms of greater than twelve months. Refer to Note 6 - "*Leases*" for further information surrounding adoption of this new standard.

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

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

Effective January 1, 2018, the Company adopted the accounting guidance in Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers*." This standard supersedes most of the existing revenue recognition requirements in U.S. GAAP under Accounting Standards Codification ("ASC") 605 and establishes a new revenue standard, ASC 606. This new standard requires 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. The Company adopted ASC 606 using the full retrospective method. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. Refer to Note 4 — "*Revenue from Contracts with Customers*" for further information surrounding adoption of this new standard.

Effective January 1, 2018, the Company adopted the accounting guidance in ASU No. 2016-15, "*Classification of Certain Cash Receipts and Cash Payments*." This standard addressed eight specific cash flow issues with the objective of reducing the existing diversity in practice. Implementation of this standard did not have a material effect on the consolidated financial statements and related disclosures. The Company applied this standard prospectively, where applicable, as there were no historical transactions affected by this implementation.

Effective January 1, 2018, the Company adopted the accounting guidance in ASU No. 2017-01, "*Clarifying the*

*Definition of a Business.*” This standard provided additional guidance on whether an integrated set of assets and activities constitutes a business. Implementation of this standard did not have a material effect on the consolidated financial statements and related disclosures. The Company applied this standard prospectively and, therefore, prior periods were not adjusted. In addition, the Company had no activity during the year ended December 31, 2019 that was required to be treated differently under this ASU than previously issued guidance.

Effective January 1, 2018, the Company adopted the accounting guidance in ASU No. 2017-09, “*Scope of Modification Accounting*.” This standard provided 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. Implementation of this standard did not have a material effect on the consolidated financial statements and related disclosures. The Company applied this standard prospectively and, therefore, prior periods presented were not adjusted. There were no changes to the terms or conditions of current share-based payment awards during the year ended December 31, 2019.

**(b) New Accounting Requirements and Disclosures**

In June 2016, the FASB issued ASU No. 2016-13, “*Measurement of Credit Losses on Financial Instruments*.”

This standard replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The pronouncement is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption for the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

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

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**Note 3 — Discontinued Operations**

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

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

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

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

Effective February 28, 2019, the Company completed the sale of the CICT segment to ADM for \$175.0 million in cash consideration, with \$4.4 million temporarily held in escrow

by ADM for post-closing working capital adjustments for up to 90 days and \$13.1 million temporarily held in escrow to satisfy potential indemnification claims by ADM with anticipated releases at 6 months, 12 months, and 15 months. As of December 31, 2019, the escrow balance including interest was \$9.9 million reflected in other current assets.

Concurrent with the closing of the sale of the CICT segment, the Company retained \$11.1 million of historical inventory previously held by the CICT segment. In addition, the Company executed a long-term supply agreement for terpene. The term of the agreement runs through December 2023, with an option to extend for an additional year. The remaining minimum commitment of the agreement at December 31, 2019 is \$72 million. Pursuant to the post-closing working capital dispute resolution procedures set forth in the Share Purchase Agreement, the Company and ADM engaged a neutral third party arbitrator to help reach agreement on the final post-closing working capital adjustment. In February 2020, the third party arbitrator ruled in favor of awarding ADM for the entire \$4.1 million disputed amount resulting in a reduction to the gain on the sale of the business as of December 31, 2019.

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The following summarized financial information has been segregated from continuing operations and reported as Discontinued Operations for the years ended December 31, 2019, 2018, and 2017 (in thousands):

|                                                | <b>Consumer and Industrial Chemistry Technologies</b> |             |             |
|------------------------------------------------|-------------------------------------------------------|-------------|-------------|
|                                                | <b>2019</b>                                           | <b>2018</b> | <b>2017</b> |
| <b>Discontinued operations:</b>                |                                                       |             |             |
| Revenue                                        | \$ 11,031                                             | \$ 72,344   | \$ 73,992   |
| Operating expenses                             | (11,572)                                              | (65,940)    | (63,621)    |
| Depreciation and amortization                  | —                                                     | (2,760)     | (2,391)     |
| Research and development                       | (69)                                                  | (590)       | (515)       |
| Income from operations                         | (610)                                                 | 3,054       | 7,465       |
| Other income (expense)                         | 35                                                    | 341         | (284)       |
| Gain on sale of businesses                     | 64,160                                                | —           | —           |
| Income before income taxes                     | 63,585                                                | 3,395       | 7,181       |
| Income tax expense                             | (19,129)                                              | (652)       | (2,730)     |
| Net income (loss) from discontinued operations | \$ 44,456                                             | \$ 2,743    | \$ 4,451    |

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

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

During the fourth quarter of 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. The Company has 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.

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.

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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.

The sale or disposal of the assets and transfer or liquidation of liabilities and obligations of these segments was completed in 2017. The Company has no continuing involvement with the discontinued operations.

The following summarized financial information has been segregated from continuing operations and reported as Discontinued Operations for the years ended December 31, 2018 and 2017 (in thousands):

|                                              | Drilling Technologies |            | Production Technologies |            |
|----------------------------------------------|-----------------------|------------|-------------------------|------------|
|                                              | 2018                  | 2017       | 2018                    | 2017       |
| Discontinued operations:                     |                       |            |                         |            |
| Revenue                                      | \$ —                  | \$ 11,534  | \$ —                    | \$ 4,002   |
| Cost of revenue                              | —                     | (7,309)    | —                       | (3,236)    |
| Selling, general and administrative          | —                     | (6,963)    | —                       | (1,759)    |
| Research and development                     | —                     | (5)        | —                       | (364)      |
| Gain (loss) on disposal of long-lived assets | —                     | 97         | —                       | —          |
| Loss from operations                         | —                     | (2,646)    | —                       | (1,357)    |
| Other expense                                | —                     | (96)       | —                       | (52)       |
| Loss on sale of businesses                   | —                     | (1,600)    | —                       | (479)      |
| Loss on write-down of assets held for sale   | —                     | (6,831)    | —                       | (9,718)    |
| Loss before income taxes                     | —                     | (11,173)   | —                       | (11,606)   |
| Income tax benefit                           | —                     | 4,138      | —                       | 4,299      |
| Net loss from discontinued operations        | \$ —                  | \$ (7,035) | \$ —                    | \$ (7,307) |

At December 31, 2017, all remaining assets and liabilities of the discontinued operations were assumed by the Company's continuing operations. These balances included \$0.3 million of net accounts receivable, \$1.4 million of sales price hold-back that was received during 2018, and \$1.4 million of accrued liabilities partially settled in 2018, with the remainder to be settled in 2019.

**Note 4 — Revenue from Contracts with Customers**

Effective January 1, 2018, the Company adopted ASC 606 using the full retrospective method applied to those contracts which were not completed as of December 31, 2015. As a result of electing the full retrospective adoption approach, results for reporting periods beginning after December 31, 2015 are presented under ASC 606.

There was no material impact upon the adoption of ASC 606. As revenue is primarily related to product sales accounted for at a point in time and service contracts that are primarily short-term in nature (typically less than 30 days), the Company did not record any adjustments to retained earnings at December 31, 2015 or for any periods previously presented.

Revenues are recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled

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

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For certain contracts, the Company recognizes revenue under the percentage-of-completion method of accounting, measured by the percentage of “costs incurred to date” to the “total estimated costs of completion.” This percentage is applied to the “total estimated revenue at completion” to calculate proportionate revenue earned to date. For the years ended December 31, 2019, 2018, and 2017, the percentage-of-completion revenue accounted for less than 0.1% of total revenue during the respective time periods. This resulted in immaterial unfulfilled performance obligations and immaterial contract assets and/or liabilities for which the Company did not record adjustments to opening retained earnings as of December 31, 2015 or for any periods previously presented.

The vast majority of the Company’s products are sold at a point in time and service contracts are short-term in nature. Sales are billed on a monthly basis with payment terms customarily 30-45 days from invoice receipt. In addition, sales taxes are excluded from revenues.

*Disaggregation of Revenue*

The Company has disaggregated revenues by product sales (point-in-time revenue recognition) and service revenue (over-time revenue recognition), where product sales accounted for over 95% of total revenue for the years ended December 31, 2019, 2018, and 2017.

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

|                                                               | Years ended December 31, |                   |                   |
|---------------------------------------------------------------|--------------------------|-------------------|-------------------|
|                                                               | 2019                     | 2018              | 2017              |
| Revenue:                                                      |                          |                   |                   |
| Products                                                      | \$ 115,471               | \$ 172,412        | \$ 237,211        |
| Services                                                      | 3,882                    | 5,361             | 5,895             |
|                                                               | <u>\$ 119,353</u>        | <u>\$ 177,773</u> | <u>\$ 243,106</u> |
| Operating expenses (excluding depreciation and amortization): |                          |                   |                   |
| Products                                                      | \$ 147,709               | \$ 152,846        | \$ 182,330        |
| Services                                                      | 1,516                    | 6,962             | 6,414             |
|                                                               | <u>\$ 149,225</u>        | <u>\$ 159,808</u> | <u>\$ 188,744</u> |

*Arrangements with Multiple Performance Obligations*

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

*Contract Balances*

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

*Practical Expedients and Exemptions*

The Company has elected to apply several practical expedients as discussed below:

- Sales commissions are expensed when incurred because the amortization period would have been one year or less. These costs are recorded within segment selling and administrative expenses.
- The majority of the Company’s services are short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC 606-10-50-14, exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the

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performance obligation is part of a contract that has an original expected duration of one year or less.

- The Company's payment terms are short-term in nature with settlements of one year or less. The Company has utilized the practical expedient in ASC 606-10-32-18, exempting the Company from adjusting the promised amount of consideration for the effects of a significant financing component given that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.
- In most service contracts, the Company has the right to consideration from a customer in an amount that

corresponds directly with the value to the customer of the Company's performance completed to date. For these contracts, the Company has utilized the practical expedient in ASC 606-10-55-18, allowing the Company to recognize revenue in the amount to which it has a right to invoice.

Accordingly, the Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

**Note 5 — Supplemental Cash Flow Information**

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

|                                                               | Years ended December 31, |          |          |
|---------------------------------------------------------------|--------------------------|----------|----------|
|                                                               | 2019                     | 2018     | 2017     |
| Supplemental non-cash investing and financing activities:     |                          |          |          |
| Value of common stock issued in payment of accrued liability  | \$ —                     | \$ —     | \$ 188   |
| Exercise of stock options by common stock surrender           | —                        | —        | 5,863    |
| Supplemental cash payment information:                        |                          |          |          |
| Interest paid                                                 | \$ 599                   | \$ 2,502 | \$ 1,851 |
| Income taxes (received, net of payments) paid, net of refunds | (699)                    | (139)    | (10,195) |

**Note 6— Leases**

Effective January 1, 2019, the Company adopted ASC 842 using the prospective method applied to those leases which were not completed as of December 31, 2018. The Company has leases for corporate offices, research and development facilities, warehouses, sales offices and equipment. The leases have remaining lease terms of 1 year to 19 years, some of which include options to extend the leases for up to 10 years.

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

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

|                                                                         | For the years ending<br>December 31, |      |
|-------------------------------------------------------------------------|--------------------------------------|------|
|                                                                         | 2019                                 | 2018 |
| Operating lease expense                                                 | \$ 2,609                             | \$ — |
| Finance lease expense:                                                  |                                      |      |
| Amortization of right-of-use assets                                     | 1,237                                | —    |
| Interest on lease liabilities                                           | 10                                   | —    |
| Total finance lease expense                                             | 1,247                                | —    |
| Short-term lease expense                                                | 123                                  | —    |
| Total lease expense                                                     | \$ 3,979                             | \$ — |
| Cash paid for amounts included in the measurement of lease liabilities: |                                      |      |
| Operating cash flows from operating leases                              | 2,336                                | —    |
| Operating cash flows from finance leases                                | 10                                   | —    |
| Financing cash flows from finance leases                                | 51                                   | —    |

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

| Years ending December 31,          | Operating Leases | Finance Leases |
|------------------------------------|------------------|----------------|
| 2020                               | 2,012            | 70             |
| 2021                               | 1,962            | 70             |
| 2022                               | 1,916            | 47             |
| 2023                               | 1,976            | 40             |
| 2024                               | 2,017            | 23             |
| Thereafter                         | 23,692           | —              |
| Total lease payments               | \$ 33,575        | \$ 250         |
| Less: Interest                     | (16,116)         | (37)           |
| Present value of lease liabilities | \$ 17,459        | \$ 213         |

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

|                                              | <b>December 31, 2019</b> |
|----------------------------------------------|--------------------------|
| <b>Operating Leases</b>                      |                          |
| Operating lease right-of-use assets          | \$ 16,388                |
| Current portion of lease liabilities         | \$ 486                   |
| Long-term operating lease liabilities        | 16,973                   |
| Total operating lease liabilities            | \$ 17,459                |
| <b>Finance Leases</b>                        |                          |
| Property and equipment                       | \$ 293                   |
| Accumulated depreciation                     | (28)                     |
| Property and equipment, net                  | \$ 265                   |
| Current portion of lease liabilities         | \$ 55                    |
| Long-term finance lease liabilities          | 158                      |
| Total finance lease liabilities              | \$ 213                   |
| <b>Weighted Average Remaining Lease Term</b> |                          |
| Operating leases                             | 16.6 years               |
| Finance leases                               | 4.6 years                |
| <b>Weighted Average Discount Rate</b>        |                          |
| Operating leases                             | 8.9%                     |
| Finance leases                               | 9.0%                     |

**Note 7 — Inventories**

Inventories are as follows (in thousands):

|                                                | <b>December 31,</b> |             |
|------------------------------------------------|---------------------|-------------|
|                                                | <b>2019</b>         | <b>2018</b> |
| Raw materials                                  | \$ 4,339            | \$ 10,608   |
| Work-in-process                                | —                   | —           |
| Finished goods                                 | 23,056              | 18,798      |
| Inventories                                    | 27,395              | 29,406      |
| Less reserve for excess and obsolete inventory | (5,698)             | (2,117)     |
| Inventories, net                               | \$ 21,697           | \$ 27,289   |

Changes in the reserve for excess and obsolete inventory are as follows (in thousands):

|                            | <b>2019</b> | <b>2018</b> | <b>2017</b> |
|----------------------------|-------------|-------------|-------------|
| Balance, beginning of year | \$ 2,117    | \$ 368      | \$ 50       |
| Charged to provisions      | 5,659       | 2,418       | 388         |
| Deductions for disposals   | (2,078)     | (669)       | (70)        |
| Balance, end of the year   | \$ 5,698    | \$ 2,117    | \$ 368      |

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The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on an assessment of market values. Write-downs or write-offs of inventory are charged to cost of goods sold. At December 31, 2019, the Company recorded a reserve for excess terpene of \$4.4 million.

**Note 8 — Property and Equipment**

Property and equipment are as follows (in thousands):

|                                      | December 31 |           |
|--------------------------------------|-------------|-----------|
|                                      | 2019        | 2018      |
| Land                                 | \$ 4,440    | \$ 4,372  |
| Buildings and leasehold improvements | 38,741      | 37,719    |
| Machinery and equipment              | 27,694      | 26,995    |
| Fixed assets in progress             | —           | 581       |
| Furniture and fixtures               | 1,671       | 1,573     |
| Transportation equipment             | 1,440       | 1,852     |
| Computer equipment and software      | 3,348       | 9,370     |
| Property and equipment               | 77,334      | 82,462    |
| Less accumulated depreciation        | (37,505)    | (36,977)  |
| Property and equipment, net          | \$ 39,829   | \$ 45,485 |

Depreciation expense totaled \$6.5 million, \$7.8 million, and \$8.4 million for the years ended December 31, 2019, 2018, and 2017, respectively.

During the years ended December 31, 2019, 2018, and 2017, no impairments were recognized related to property and equipment.

**Note 9— Goodwill**

The Company has no reporting units which have a goodwill balance at December 31, 2019.

Goodwill is tested for impairment annually in the fourth quarter, or more frequently if circumstances indicate a potential impairment. During the fourth quarter of 2017, the Company adopted ASU 2017-04, which eliminates Step 2 from the goodwill impairment test. If the carrying amount exceeds the reporting unit's fair value, the Company will recognize an impairment charge for the excess amount.

During the second quarter of 2018, the Company recognized a goodwill impairment charge of \$37.2 million in the Energy Chemistry Technologies ("ECT") reporting unit, which resulted from sustained under-performance and lower expectations related to the reporting unit. As a result of these factors, a qualitative analysis, and additional risks associated with the business, the Company concluded that sufficient indicators existed to require an interim quantitative assessment

of goodwill for that reporting unit as of June 30, 2018. The fair value of the reporting unit was estimated based on an analysis of the present value of future discounted cash flows. The significant estimates used in the discounted cash flows model included the Company's weighted average cost of capital, projected cash flows and the long-term rate of growth. The assumptions were based on the actual historical performance of the reporting unit and took into account a recent weakening of operating results in an improving market environment. The excess of the reporting unit's carrying value over the estimated fair value was recorded as the goodwill impairment charge during the three months ended June 30, 2018 and represented all of the ECT reporting unit's goodwill.

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

|                                 |           |
|---------------------------------|-----------|
| Balance at December 31, 2017:   |           |
| Goodwill                        | \$ 37,180 |
| Accumulated impairment losses   | —         |
| Goodwill balance, net           | 37,180    |
| Activity during the year 2018:  |           |
| Goodwill impairment recognized  | (37,180)  |
| Acquisition goodwill recognized | —         |
| Balance at December 31, 2018:   |           |
| Goodwill                        | 37,180    |
| Accumulated impairment losses   | (37,180)  |
| Goodwill balance, net           | —         |
| Activity during the year 2019:  |           |
| Goodwill impairment recognized  | —         |
| Acquisition goodwill recognized | —         |
| Balance at December 31, 2019:   |           |
| Goodwill                        | —         |
| Accumulated impairment losses   | —         |
| Goodwill balance, net           | \$ —      |

**Note 10 — Other Intangible Assets**

Other intangible assets are as follows (in thousands):

|                                               | December 31, |                          |           |                          |
|-----------------------------------------------|--------------|--------------------------|-----------|--------------------------|
|                                               | 2019         |                          | 2018      |                          |
|                                               | Cost         | Accumulated Amortization | Cost      | Accumulated Amortization |
| Finite lived intangible assets:               |              |                          |           |                          |
| Patents and technology                        | \$ 17,493    | \$ 6,715                 | \$ 18,884 | \$ 6,689                 |
| Customer lists                                | 15,367       | 6,013                    | 15,367    | 5,259                    |
| Trademarks and brand names                    | 1,351        | 1,160                    | 1,485     | 1,149                    |
| Total finite lived intangible assets acquired | 34,211       | 13,888                   | 35,736    | 13,097                   |
| Deferred financing costs                      | —            | —                        | 1,924     | 496                      |
| Total amortizable intangible assets           | 34,211       | \$ 13,888                | 37,660    | \$ 13,593                |
| Indefinite lived intangible assets:           |              |                          |           |                          |
| Trademarks and brand names                    | 2,760        |                          | 2,760     |                          |
| Total other intangible assets                 | \$ 36,971    |                          | \$ 40,420 |                          |
| Carrying amount:                              |              |                          |           |                          |
| Other intangible assets, net                  | \$ 23,083    |                          | \$ 26,827 |                          |

Intangible assets acquired are amortized on a straight-line basis over two to 95 years. Amortization of intangible assets acquired totaled \$2.0 million, \$1.4 million, and \$1.5 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Amortization of deferred financing costs totaled \$1.4 million, \$0.4 million, and \$0.5 million for the years ended December 31, 2019, 2018, and 2017, respectively.

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Estimated future amortization expense for other finite lived intangible assets, including deferred financing costs, at December 31, 2019 is as follows (in thousands):

| <b>Year ending December 31,</b>          |    |        |
|------------------------------------------|----|--------|
| 2020                                     | \$ | 1,941  |
| 2021                                     |    | 1,935  |
| 2022                                     |    | 1,915  |
| 2023                                     |    | 1,858  |
| 2024                                     |    | 1,854  |
| Thereafter                               |    | 10,109 |
| Other amortizable intangible assets, net | \$ | 19,612 |

During the years ended December 31, 2019, 2018, and 2017, no impairments were recognized related to other intangible assets.

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

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

|                                            | <b>December 31,</b> |             |
|--------------------------------------------|---------------------|-------------|
|                                            | <b>2019</b>         | <b>2018</b> |
| Long-term debt, classified as current:     |                     |             |
| Borrowings under revolving credit facility | \$ —                | \$ 49,731   |

On March 1, 2019, the Company repaid the outstanding balance of the Credit Facility.

**Note 12 — 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.

***Liabilities Measured at Fair Value on a Recurring Basis***

At December 31, 2019 and 2018, no liabilities were required to be measured at fair value on a recurring basis. There were no transfers in or out of either Level 1, Level 2, or Level 3 fair value measurements during the years ended December 31, 2019, 2018, and 2017.

***Assets Measured at Fair Value on a Nonrecurring Basis***

The Company's non-financial assets, including property and equipment, goodwill, and other intangible assets are measured at fair value on a non-recurring basis and are subject to fair value adjustment in certain circumstances. During the three months ended June 30, 2018, the Company recorded an impairment of \$37.2 million for goodwill in the ECT reporting unit (see Note 9). No impairments of goodwill were recognized during the years ended December 31, 2019, and 2017. No impairment of property and equipment or other intangible assets were recognized during the years ended December 31, 2019, 2018, and 2017.

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**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 December 31, 2019 or 2018.

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

|                                            | December 31,    |            |                 |            |
|--------------------------------------------|-----------------|------------|-----------------|------------|
|                                            | 2019            |            | 2018            |            |
|                                            | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Borrowings under revolving credit facility | \$ —            | \$ —       | \$ 49,731       | \$ 49,731  |

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

**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 years ended December 31, 2019, 2018, and 2017, since including them

would have an anti-dilutive effect on loss per share due to the loss from continuing operations incurred during the period. Securities convertible into shares of common stock that were not considered in the diluted loss per share calculations were 0.1 million restricted stock units and 3.0 million stock options for the year ended December 31, 2019, and 0.7 million restricted stock units for the year ended December 31, 2018, and 0.7 million stock options and 0.8 million restricted stock units for the year ended December 31, 2017.

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

|                                                       | Years ended December 31, |        |        |
|-------------------------------------------------------|--------------------------|--------|--------|
|                                                       | 2019                     | 2018   | 2017   |
| Weighted average common shares outstanding - Basic    | 58,750                   | 57,995 | 57,580 |
| Assumed conversions:                                  |                          |        |        |
| Incremental common shares from stock options          | —                        | —      | —      |
| Incremental common shares from restricted stock units | —                        | —      | —      |
| Weighted average common shares outstanding - Diluted  | 58,750                   | 57,995 | 57,580 |

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**Note 14 — Income Taxes**

Components of the income tax (benefit) expense are as follows (in thousands):

|                              | Years ended December 31, |            |            |
|------------------------------|--------------------------|------------|------------|
|                              | 2019                     | 2018       | 2017       |
| Current:                     |                          |            |            |
| Federal                      | \$ (22,923)              | \$ —       | \$ (1,126) |
| State                        | (2,295)                  | 97         | 587        |
| Foreign                      | (238)                    | (740)      | 488        |
| Total current                | (25,456)                 | (643)      | (51)       |
| Deferred:                    |                          |            |            |
| Federal                      | 23,910                   | (6,585)    | 5,994      |
| State                        | 1,345                    | (89)       | 214        |
| Foreign                      | —                        | 101        | (45)       |
| Total deferred               | 25,255                   | (6,573)    | 6,163      |
| Income tax (benefit) expense | \$ (201)                 | \$ (7,216) | \$ 6,112   |

The components of (loss) income before income taxes are as follows (in thousands):

|                          | Years ended December 31, |             |             |
|--------------------------|--------------------------|-------------|-------------|
|                          | 2019                     | 2018        | 2017        |
| United States            | \$ (76,758)              | \$ (80,034) | \$ (10,025) |
| Foreign                  | (178)                    | (623)       | (1,367)     |
| Loss before income taxes | \$ (76,936)              | \$ (80,657) | \$ (11,392) |

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

|                                                        | Year ended December 31, |        |         |
|--------------------------------------------------------|-------------------------|--------|---------|
|                                                        | 2019                    | 2018   | 2017    |
| Federal statutory tax rate                             | 21.0 %                  | 21.0 % | 35.0 %  |
| State income taxes, net of federal benefit             | 0.6                     | 0.8    | (3.2)   |
| Non-U.S. income taxed at different rates               | 0.5                     | 0.8    | (4.3)   |
| (Increase) decrease in valuation allowance             | (19.9)                  | (3.6)  | 0.1     |
| Impact of 2017 Tax Cuts and Jobs Act                   | —                       | —      | (64.2)  |
| Net operating loss carryback adjustment                | —                       | —      | —       |
| Reduction in tax benefit related to stock-based awards | (0.1)                   | (1.0)  | (16.9)  |
| Non-deductible expenditures and goodwill               | —                       | (9.0)  | (3.9)   |
| Research and development credit                        | 0.2                     | 0.3    | 3.6     |
| Other                                                  | (2.0)                   | (0.4)  | 0.1     |
| Effective income tax rate                              | 0.3 %                   | 8.9 %  | (53.7)% |

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.

Comprehensive tax reform legislation enacted in December 2017, commonly referred to as the Tax Cuts and Jobs Acts (“2017 Tax Act”), makes significant changes to U.S. federal income tax laws. The 2017 Tax Act, among other things, reduces the corporate income tax rate from 35% to 21%, partially limits the deductibility of business interest expense and net operating losses, provides additional limitations on the deductibility of executive compensation, imposes a one-time tax on unrepatriated earnings from certain foreign subsidiaries, taxes offshore earnings at reduced rates regardless of whether they are repatriated, and allows the immediate deduction of certain new investments instead of deductions for depreciation expense over time. The Company had not completed its determination of the 2017 Tax Act and recorded provisional amounts in its financial statements as of December 31, 2017. The Company recorded a provisional expense for the effects of the 2017 Tax Act of \$7.3 million. The effects of the 2017

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Tax Act on the Company include three main categories: 1) remeasurement of the net deferred tax assets from 35% to 21%, which resulted in tax expense of \$5.5 million; 2) a one-time tax on unrepatriated earnings from certain foreign subsidiaries of \$0.2 million; and 3) additional limitations on the deductibility of executive compensation, which resulted in tax expense of \$1.6 million. The Company completed its review of the 2017 Tax Act in 2018, and there were no material changes in the measurement period.

Deferred income taxes reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the value reported for income tax purposes, at the enacted tax rates expected to be in effect when the differences reverse. The components of deferred tax assets and liabilities are as follows (in thousands):

|                                      | December 31, |           |
|--------------------------------------|--------------|-----------|
|                                      | 2019         | 2018      |
| Deferred tax assets:                 |              |           |
| Net operating loss carryforwards     | \$ 17,248    | \$ 30,241 |
| Allowance for doubtful accounts      | 1,037        | 1,073     |
| Inventory valuation reserves         | 629          | 1,057     |
| Equity compensation                  | 353          | 548       |
| Goodwill                             | 965          | 1,089     |
| Accrued compensation                 | 587          | 342       |
| Foreign tax credit carryforward      | 3,894        | 4,041     |
| Settlement liability                 | 3,530        | —         |
| Lease liability                      | 3,992        | —         |
| Interest expense limitation          | —            | 534       |
| Other                                | 96           | 50        |
| Total gross deferred tax assets      | 32,331       | 38,975    |
| Valuation allowance                  | (19,878)     | (4,042)   |
| Total deferred tax assets, net       | 12,453       | 34,933    |
| Deferred tax liabilities:            |              |           |
| Property and equipment               | (3,696)      | (6,613)   |
| Intangible assets                    | (4,597)      | (9,657)   |
| ROU asset                            | (3,793)      | —         |
| Prepaid insurance and other          | (331)        | —         |
| Total gross deferred tax liabilities | (12,417)     | (16,270)  |
| Net deferred tax assets              | \$ 36        | \$ 18,663 |

As of December 31, 2019, the Company had U.S. net operating loss carryforwards of \$68.9 million, including \$49.6 million expiring in various amounts in 2035 through 2037 which can offset 100% of taxable income and \$19.3 million that has an indefinite carryforward period which can offset 80% of taxable income per year. The ability to utilize net operating losses and other tax attributes could be subject to a significant limitation if the Company were to undergo an “ownership change” for purposes of Section 382 of the Tax Code.

Net deferred tax assets arise due to the recognition of income and expense items for tax purposes, which differ from those used for financial statement purposes. ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for a valuation allowance in the second quarter of 2018, the Company considered all available objective and

verifiable evidence, both positive and negative, including historical levels of pre-tax income (loss) both on a consolidated basis and tax reporting entity basis, legislative developments, and expectations and risks associated with estimates of future pre-tax income. As a result of this analysis, the Company determined that it is more likely than not that it will not realize the benefits of certain deferred tax assets and, therefore, recorded a \$15.5 million valuation allowance against the carrying value of net deferred tax assets, except for deferred tax liabilities related to non-amortizable intangible assets and certain state jurisdictions. As all available evidence should be taken into consideration when assessing the need for a valuation allowance, the subsequent events that occurred in the first quarter of 2019 provided a source of income to support the release of \$11.5 million of the valuation allowance which resulted in a deferred tax asset of \$18.7 million. As such, the Company reversed this portion of the valuation allowance during the fourth quarter of 2018. At December 31, 2019, the

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valuation allowance against the net federal and state deferred tax assets was \$19.9 million.

The Company has not calculated U.S. taxes on unremitted earnings of certain non-U.S. subsidiaries due to the Company's intent to reinvest the unremitted earnings of the non-U.S. subsidiaries. At December 31, 2019, the Company had approximately \$2.3 million in unremitted earnings for one of its foreign jurisdictions, which were not included for U.S. tax purposes. Due to the 2017 Tax Act, U.S. federal transition taxes have been recorded for a one-time U.S. tax liability on these earnings which have not previously been repatriated to the U.S. However, certain withholding taxes will need to be paid upon repatriation. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings.

The Company has performed an evaluation and concluded there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The

evaluation was performed for the tax years which remain subject to examination by tax jurisdictions as of December 31, 2019, which are the years ended December 31, 2015 through December 31, 2019 for U.S. federal taxes and the years ended December 31, 2014 through December 31, 2019 for state tax jurisdictions.

At December 31, 2019, the Company had no unrecognized tax benefits.

In January 2017, the Internal Revenue Service notified the Company that it would examine the Company's "IRS" federal tax returns for the year ended December 31, 2014. The examination included (1) the corporate returns and (2) employment tax matters. The IRS fieldwork has been completed in relation to the corporate returns with no adverse findings. Further discussion of the employment tax matter can be found in Note 19 -- "Related Party Transaction."

## **Note 15 — Common Stock**

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

A reconciliation of the changes in common shares issued is as follows:

|                                            | <b>Year ended December 31,</b> |             |
|--------------------------------------------|--------------------------------|-------------|
|                                            | <b>2019</b>                    | <b>2018</b> |
| Shares issued at the beginning of the year | 62,162,875                     | 60,622,986  |
| Issued as restricted stock award grants    | 924,022                        | 1,539,889   |
| Issued as restricted stock unit grants     | 570,000                        | —           |
| Shares issued at the end of the year       | 63,656,897                     | 62,162,875  |

## **Stock-Based Incentive Plans**

Stockholders approved long term incentive plans in 2019, 2018, 2014, 2010, and 2007 (the "2019 Plan", the "2018 Plan," the "2014 Plan," the "2010 Plan," and the "2007 Plan," respectively) under which the Company may grant equity awards to officers, key employees, non-employee directors, and service providers in the form of stock options, restricted stock, and certain other incentive awards. The maximum

number of shares that may be issued under the 2019 Plan, 2018 Plan, 2014 Plan, 2010 Plan, and 2007 Plan are 1.0 million, 3.0 million, 5.2 million, 6.0 million, and 2.2 million, respectively. At December 31, 2019, the Company had a total of 3.9 million shares remaining to be granted under the 2019 Plan, 2018 Plan, 2014 Plan, and 2010 Plan. Shares may no longer be granted under the 2007 Plan.

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**Stock Options**

All stock options are granted with an exercise price equal to the market value of the Company's common stock on the date of grant. During the fourth quarter 2019, 3.0 million stock options were granted, 1.0 million time-vested and 2.0 million performance-based. The time-vested stock options will vest equally over the next five years. The performance-based options are restricted until performance criteria defined in the agreement are met. Proceeds received from stock option exercises are credited to common stock and additional paid-in capital, as appropriate. The Company uses historical data to estimate pre-vesting option forfeitures. Estimates are adjusted when actual forfeitures differ from the estimate. Stock-based compensation expense is recorded for all equity awards expected to vest.

No stock options vested during the years ended December 31, 2019, 2018, and 2017.

| <b>Stock Options</b>              | <b>Shares</b> | <b>Weighted-Average Exercise Price</b> |
|-----------------------------------|---------------|----------------------------------------|
| Outstanding as of January 1, 2019 | —             | \$ —                                   |
| Granted                           | 3,000,000     | 1.22                                   |
| Exercised                         | —             | —                                      |
| Forfeited                         | —             | —                                      |
| Expired                           | —             | —                                      |
| Outstanding as of                 |               |                                        |
| December 31, 2019                 | 3,000,000     | \$ 1.22                                |
| Vested or expected to vest at     |               |                                        |
| December 31, 2019                 | —             | \$ —                                   |
| Options exercisable as of         |               |                                        |
| December 31, 2019                 | —             | \$ —                                   |

The following table sets forth significant assumptions used in the Black-Scholes model for time-vested options and the Monte Carlo model for performance-based options to determine the fair value of the options at December 31, 2019.

|                                     | <b>Time-Vested Options</b> | <b>Performance-Based Options</b> |
|-------------------------------------|----------------------------|----------------------------------|
| Risk-free interest rate             | 1.81%                      | 1.84%                            |
| Expected volatility of common stock | 73.59%                     | 71.57%                           |
| Expected life of options in years   | 5.0                        | 7.0                              |
| Dividend yield                      | —%                         | —%                               |
| Vesting period in years             | 5.0                        | 7.0                              |

**Restricted Stock**

The Company grants employees either time-vesting or performance-based restricted shares in accordance with terms specified in the Restricted Stock Agreements ("RSAs"). Time-

vesting restricted shares vest after a stipulated period of time has elapsed subsequent to the date of grant, generally three

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years. Certain time-vested shares have also been issued with a portion of the shares granted vesting immediately.

Performance-based restricted shares are issued with performance criteria defined over a designated performance period and vest only when, and if, the outlined performance

criteria are met. During the year ended December 31, 2019, 63% of the restricted shares granted were time-vesting and 37% were performance-based. Grantees of restricted shares retain voting rights for the granted shares.

Restricted stock share activity for the year ended December 31, 2019 is as follows:

| Restricted Stock Shares         | Shares    | Weighted-Average Fair Value at Date of Grant |
|---------------------------------|-----------|----------------------------------------------|
| Non-vested at January 1, 2019   | 1,050,372 | \$ 3.47                                      |
| Granted to employees            | 1,494,022 | 2.62                                         |
| Vested                          | (615,941) | 3.72                                         |
| Forfeited                       | (299,433) | 3.16                                         |
| Non-vested at December 31, 2019 | 1,629,020 | \$ 2.66                                      |

The weighted-average grant-date fair value of restricted stock granted during the years ended December 31, 2019, 2018, and 2017 was \$2.62, \$10.62, and \$11.92 per share, respectively. The total fair value of restricted stock that vested during the years ended December 31, 2019, 2018, and 2017 was \$6.3 million, \$8.6 million, and \$15.4 million, respectively.

At December 31, 2019, there was \$1.8 million of unrecognized compensation expense related to non-vested restricted stock. The unrecognized compensation expense is expected to be recognized over a weighted-average period of 2.0 years.

**Restricted Stock Units**

During the year ended December 31, 2019, the Company granted performance-based restricted stock units ("RSUs") for 1,071,530 shares equivalents. The performance period for these share equivalents continues until December 31, 2024.

During the year ended December 31, 2018, the Company granted performance-based RSUs for 604,682 share equivalents, which had a performance period through December 31, 2019. No RSUs were earned during this performance period.

Restricted stock units activity for the year ended December 31, 2019 is as follows:

| Restricted Stock Units               | Units     | Weighted-Average Fair Value at Date of Grant |
|--------------------------------------|-----------|----------------------------------------------|
| RSU equivalents at January 1, 2019   | 301,766   | \$ 3.94                                      |
| 2018 equivalents forfeited           | (272,046) | 6.39                                         |
| Total equivalents                    | 29,720    | —                                            |
| 2019 equivalents granted             | 1,071,530 | 3.75                                         |
| 2019 equivalents forfeited           | (62,776)  | 1.66                                         |
| RSU equivalents at December 31, 2019 | 1,038,474 | \$ 3.24                                      |

At December 31, 2019, there was \$2.1 million of unrecognized compensation expense related to 2019 and 2018 restricted stock units. The unrecognized compensation expense is expected to be recognized over a weighted-average period of 1.3 years.

**Employee Stock Purchase Plan**

The Company's Employee Stock Purchase Plan ("ESPP") was approved by stockholders on May 18, 2012. The Company registered 500,000 shares of its common stock, currently held as treasury shares, for issuance under the ESPP. The purpose of the ESPP is to provide employees with an opportunity to purchase shares of the Company's common stock through accumulated payroll deductions. The ESPP allows participants

to purchase common stock at a purchase price equal to 85% of the fair market value of the common stock on the last business day of a three-month offering period which coincides with calendar quarters. Payroll deductions may not exceed 10% of an employee's compensation and participants may not purchase more than 1,000 shares in any one offering period. In addition, for each calendar year, an employee may not be granted purchase rights for Flotek Stock valued over \$25,000, as determined at the time such purchase right is granted. The fair value of the discount associated with shares purchased under the plan is recognized as share-based compensation expense and was \$0.1 million, \$0.1 million, and \$0.1 million during the years ended December 31, 2019, 2018, and 2017, respectively. The total fair value of the shares purchased under the plan during the years ended December 31, 2019, 2018, and 2017 was \$0.1 million, \$0.8 million, and \$1.0 million, respectively. The employee payment associated with participation in the plan was satisfied through payroll deductions. Effective after the third quarter 2018 purchase, the Company temporarily suspended the ESPP due to lack of shares. Following shareholder approval for additional shares, the Company initiated the ESPP during the second quarter 2019.

#### ***Share-Based Compensation Expense***

Non-cash share-based compensation expense related to restricted stock, restricted stock unit grants, and stock purchased under the Company's ESPP was \$7.1 million, \$10.6 million, and \$11.4 million during the years ended December 31, 2019, 2018, and 2017, respectively.

#### ***Treasury Stock***

The Company accounts for treasury stock using the cost method and includes treasury stock as a component of stockholders' equity. During the years ended December 31, 2019, 2018, and 2017, the Company purchased 93,977 shares, 199,644 shares, and 238,216 shares, respectively, of the Company's common stock at market value as payment of income tax withholding owed by employees upon the vesting of restricted shares and the exercise of stock options. Shares issued as restricted stock awards to employees that were forfeited are accounted for as treasury stock. During the year ended December 31, 2019, there were no shares surrendered

for the exercise of stock options. During the years ended December 31, 2018 and 2017, shares surrendered for the exercise of stock options were 478,287 and 3,225, respectively. These surrendered shares are also accounted for as treasury stock.

#### ***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. Through December 31, 2019, the Company has repurchased \$25 million of its common stock under this authorization.

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 December 31, 2019, the Company repurchased \$0.3 million of its common stock under this authorization.

During the year ended December 31, 2018, the Company did not repurchase any shares of its outstanding common stock. During the year ended December 31, 2017, the Company repurchased 905,000 shares of its outstanding common stock on the open market at a cost of \$5.2 million, inclusive of transaction costs, or an average price of \$5.75 per share. During the year ended December 31, 2016, the Company did not repurchase any shares of its outstanding common stock.

At December 31, 2019, the Company had \$49.7 million remaining under its share repurchase program. A covenant under the Company's Credit Facility limited the amount that may be used to repurchase the Company's common stock. At December 31, 2019, this covenant did not permit additional share repurchases.

**Note 16 — Commitments and Contingencies**

***Class Action Litigation***

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

***Other Litigation***

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

***Other Commitments***

Rent expense under operating leases totaled \$2.9 million, \$2.9 million, and \$3.3 million during the years ended December 31, 2019, 2018, and 2017, respectively.

***401(k) Retirement Plan***

The Company maintains a 401(k) retirement plan for the benefit of eligible employees in the U.S. All employees are eligible to participate in the plan upon employment. On January 1, 2015, the Company implemented a new matching program. The Company matches contributions at 100% of up to 2% of an employee's compensation and, if greater, the Company matches contributions at 50% from 5% to 8% of an employee's compensation.

During the years ended December 31, 2019, 2018, and 2017, compensation expense included \$0.7 million, \$1.0 million and \$1.0 million, respectively, related to the Company's 401(k) match.

***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.

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**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 one reportable segment: Energy 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.

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.

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

| As of and for the years ended December 31, | Energy Chemistry Technologies | Corporate and Other | Total      |
|--------------------------------------------|-------------------------------|---------------------|------------|
| <b>2019</b>                                |                               |                     |            |
| Net revenue from external customers        | \$ 119,353                    | \$ —                | \$ 119,353 |
| Loss from operations                       | (46,485)                      | (30,140)            | (76,625)   |
| Depreciation and amortization              | 7,439                         | 1,026               | 8,465      |
| Capital expenditures                       | 2,411                         | —                   | 2,411      |
| <b>2018</b>                                |                               |                     |            |
| Net revenue from external customers        | \$ 177,773                    | \$ —                | \$ 177,773 |
| Income (loss) from operations              | (36,817)                      | (32,994)            | (69,811)   |
| Depreciation and amortization              | 7,107                         | 2,109               | 9,216      |
| Capital expenditures                       | 2,733                         | 826                 | 3,559      |
| <b>2017</b>                                |                               |                     |            |
| Net revenue from external customers        | \$ 243,106                    | \$ —                | \$ 243,106 |
| Income (loss) from operations              | 33,611                        | (43,931)            | (10,320)   |
| Depreciation and amortization              | 7,323                         | 2,445               | 9,768      |
| Capital expenditures                       | 3,279                         | 918                 | 4,197      |

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

|                               | December 31, 2019 | December 31, 2018 |
|-------------------------------|-------------------|-------------------|
| Energy Chemistry Technologies | \$ 117,357        | \$ 139,205        |
| Corporate and Other           | 114,490           | 28,208            |
| <b>Total segments</b>         | <b>231,847</b>    | <b>167,413</b>    |
| Held for sale                 | —                 | 118,470           |
| <b>Total assets</b>           | <b>\$ 231,847</b> | <b>\$ 285,883</b> |

**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):

|                 | Years ended December 31, |                   |                   |
|-----------------|--------------------------|-------------------|-------------------|
|                 | 2019                     | 2018              | 2017              |
| U.S.            | \$ 104,786               | \$ 146,421        | \$ 219,517        |
| Other countries | 14,567                   | 31,352            | 23,589            |
| <b>Total</b>    | <b>\$ 119,353</b>        | <b>\$ 177,773</b> | <b>\$ 243,106</b> |

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

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***Major Customers***

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

|            | <b>Years ended December 31,</b> |             |             |
|------------|---------------------------------|-------------|-------------|
|            | <b>2019</b>                     | <b>2018</b> | <b>2017</b> |
| Customer A | 20.4%                           | *           | *           |
| Customer B | 10.3%                           | 12.23%      | *           |
| Customer C | *                               | 10.1%       | *           |
| Customer D | *                               | *           | 16.7%       |

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**Note 18 — Quarterly Financial Data (Unaudited)**

|                                                           | First<br>Quarter | Second<br>Quarter  | Third<br>Quarter   | Fourth<br>Quarter  | Total              |
|-----------------------------------------------------------|------------------|--------------------|--------------------|--------------------|--------------------|
| (in thousands, except per share data)                     |                  |                    |                    |                    |                    |
| <b>2019</b>                                               |                  |                    |                    |                    |                    |
| Revenue <sup>(1)</sup>                                    | \$ 43,256        | \$ 34,692          | \$ 21,879          | \$ 19,526          | \$ 119,353         |
| Loss from operations <sup>(1)</sup>                       | (14,266)         | (13,859)           | (11,853)           | (36,647)           | (76,625)           |
| (Loss) income from continuing operations <sup>(1)</sup>   | \$ (15,380)      | \$ (12,990)        | \$ (11,227)        | \$ (37,138)        | \$ (76,735)        |
| Income (loss) from discontinued operations, net of tax    | 48,372           | (1,608)            | 117                | (2,425)            | 44,456             |
| Net (loss) income                                         | 32,992           | (14,598)           | (11,110)           | (39,563)           | (32,279)           |
| Net loss attributable to noncontrolling interests         | —                | —                  | —                  | —                  | —                  |
| Net loss attributable to Flotek Industries, Inc. (Flotek) | <u>\$ 32,992</u> | <u>\$ (14,598)</u> | <u>\$ (11,110)</u> | <u>\$ (39,563)</u> | <u>\$ (32,279)</u> |
| Amounts attributable to Flotek shareholders:              |                  |                    |                    |                    |                    |
| Loss from continuing operations <sup>(1)</sup>            | \$ (15,380)      | \$ (12,990)        | \$ (11,227)        | \$ (37,138)        | \$ (76,735)        |
| Income (loss) from discontinued operations, net of tax    | 48,372           | (1,608)            | 117                | (2,425)            | 44,456             |
| Net income (loss) attributable to Flotek                  | <u>\$ 32,992</u> | <u>\$ (14,598)</u> | <u>\$ (11,110)</u> | <u>\$ (39,563)</u> | <u>\$ (32,279)</u> |
| Basic earnings (loss) per common share <sup>(2)</sup> :   |                  |                    |                    |                    |                    |
| Continuing operations                                     | \$ (0.26)        | \$ (0.22)          | \$ (0.19)          | \$ (0.64)          | \$ (1.31)          |
| Discontinued operations                                   | 0.83             | (0.03)             | —                  | (0.04)             | 0.76               |
| Basic earnings (loss) per common share                    | <u>\$ 0.57</u>   | <u>\$ (0.25)</u>   | <u>\$ (0.19)</u>   | <u>\$ (0.68)</u>   | <u>\$ (0.55)</u>   |
| Diluted earnings (loss) per common share <sup>(2)</sup> : |                  |                    |                    |                    |                    |
| Continuing operations                                     | \$ (0.26)        | \$ (0.22)          | \$ (0.19)          | \$ (0.64)          | \$ (1.31)          |
| Discontinued operations                                   | 0.83             | (0.03)             | —                  | (0.04)             | 0.76               |
| Diluted earnings (loss) per common share                  | <u>\$ 0.57</u>   | <u>\$ (0.25)</u>   | <u>\$ (0.19)</u>   | <u>\$ (0.68)</u>   | <u>\$ (0.55)</u>   |
| <b>2018</b>                                               |                  |                    |                    |                    |                    |
| Revenue <sup>(1)</sup>                                    | \$ 41,069        | \$ 39,546          | \$ 53,709          | \$ 43,449          | \$ 177,773         |
| (Loss) income from operations <sup>(1)</sup>              | (9,223)          | (47,140)           | (4,080)            | (9,368)            | (69,811)           |
| Loss from continuing operations <sup>(1)</sup>            | \$ (9,528)       | \$ (68,987)        | \$ (4,869)         | \$ 9,943           | \$ (73,441)        |
| (Loss) income from discontinued operations, net of tax    | 9,595            | (6,404)            | 937                | (1,385)            | 2,743              |
| Net loss (income)                                         | <u>\$ 67</u>     | <u>\$ (75,391)</u> | <u>\$ (3,932)</u>  | <u>\$ 8,558</u>    | <u>\$ (70,698)</u> |
| Basic earnings (loss) per common share <sup>(2)</sup> :   |                  |                    |                    |                    |                    |
| Continuing operations                                     | \$ (0.17)        | \$ (1.19)          | \$ (0.08)          | \$ 0.18            | \$ (1.26)          |
| Discontinued operations                                   | 0.17             | (0.11)             | 0.02               | (0.02)             | 0.05               |
| Basic earnings (loss) per common share                    | <u>\$ —</u>      | <u>\$ (1.30)</u>   | <u>\$ (0.06)</u>   | <u>\$ 0.16</u>     | <u>\$ (1.21)</u>   |
| Diluted earnings (loss) per common share <sup>(2)</sup> : |                  |                    |                    |                    |                    |
| Continuing operations                                     | \$ (0.17)        | \$ (1.19)          | \$ (0.08)          | \$ 0.18            | \$ (1.26)          |
| Discontinued operations                                   | 0.17             | (0.11)             | 0.02               | (0.02)             | 0.05               |
| Diluted earnings (loss) per common share                  | <u>\$ —</u>      | <u>\$ (1.30)</u>   | <u>\$ (0.06)</u>   | <u>\$ 0.16</u>     | <u>\$ (1.21)</u>   |

(1) Amounts exclude impact of discontinued operations.

(2) The sum of the quarterly earnings (loss) per share (basic and diluted) may not agree to the earnings (loss) per share for the year due to the timing of common stock issuances.

**Note 19 — Related Party Transaction**

In January 2017, the IRS notified the Company that it was examining the Company's federal tax returns for the year ended December 31, 2014. As a result of this examination, the IRS informed the Company on May 1, 2019 that certain employment taxes related to the compensation of our CEO, Mr. Chisholm, were not properly withheld in 2014 and proposed an adjustment. Mr. Chisholm's affiliated companies through which he provided his services have agreed to indemnify the Company for any such taxes, and Mr. Chisholm has executed a personal guaranty in favor of the Company, supporting this indemnification.

At June 30, 2019, the Company recorded a liability of \$2.4 million related to the estimated employment tax under-withholding for the years 2014 through 2018. By September 30, 2019, the liability totaled \$1.8 million, after the Company paid \$0.6 million to the IRS for these taxes and made an additional accrual covering the estimated under-withholding

tax liability through 2019. In addition, at June 30, 2019 the Company recorded a receivable from the affiliated companies totaling \$2.4 million. In October 2019, an amendment to the employment agreement was executed, giving the Company the contractual right of offset for any amounts owed to the Company against, and giving the Company the right to withhold payments equal to amounts reasonably estimated to potentially become due to the Company by the affiliated companies from, any amounts owed under the employment agreement. The Company netted the related party receivable against the severance payable as of December 31, 2019. At December 31, 2019, the Company recorded \$1.8 million for potential liability to the IRS.

**Note 20 — Subsequent Events**

On February 26, 2020, Flotek Chemistry, LLC, a wholly-owned subsidiary of the Company, entered into an amendment to the terpene supply agreement between Flotek Chemistry and Florida Chemical Company, LLC. Pursuant to the terms and conditions of the amendment, the terpene supply agreement is amended to, among other things, (a) reduce the minimum quantity of terpene that Flotek Chemistry is required to purchase by approximately 3/4ths in 2020 and by approximately half in each of 2021, 2022 and 2023, (b) provide a fixed per pound price for terpene in 2020, (c) reduce the maximum amount of terpene subject to the terpene supply Agreement by approximately 1/3rd, and (d) change the payment terms to net 45 days. In order to make the terms and conditions of the Amendment effective, Flotek Chemistry made a one-time payment of \$15.8 million to Florida Chemical Company, LLC, which is included in accrued liabilities at December 31, 2019.

As of December 31, 2019, the Company concluded that the amended long-term supply agreement met the definition of a

loss contract. As such, the Company recognized a loss as of December 31, 2019 equal to the price paid for terpene supply agreement amendment which aligns purchase commitments to expected usage for blended products.

Pursuant to the post-closing working capital dispute resolution procedures set forth in the Share Purchase Agreement, the Company and ADM engaged a neutral third party auditor to help reach agreement on the final post-closing working capital adjustment. In February 2020, the third party auditor ruled in favor of awarding ADM for the entire \$4.1 million disputed amount resulting in a reduction to the gain on the sale of the business as of December 31, 2019.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A. 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 December 31, 2019, as required by Rule 13a-15(e) of the Exchange Act. Based upon that evaluation, the principal executive and principal financial officers have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2019.

#### ***Management's Report on Internal Control over Financial Reporting***

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act.

The Company's management, including the principal executive and principal financial officers, assessed the effectiveness of internal control over financial reporting as of December 31, 2019, based on criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) ("COSO") in *Internal Control – Integrated Framework*. Upon evaluation, the Company's management has concluded that the Company's internal control over financial reporting was effective in connection with the preparation of the consolidated financial statements as of December 31, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by Moss Adams LLP, an independent registered public accounting firm, as stated in their report which is included herein.

#### ***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 December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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#### **Item 9B. Other Information.**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by this Item is incorporated by reference to the Company's Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of year end.

### **Item 11. Executive Compensation.**

The information required by this Item is incorporated by reference to the Company's Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of year end.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this Item is incorporated by reference to the Company's Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of year end.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this Item is incorporated by reference to the Company's Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of year end.

### **Item 14. Principal Accounting Fees and Services.**

The information required by this Item is incorporated by reference to the Company's Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of year end.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

#### EXHIBIT INDEX

| Exhibit<br>Number | Exhibit Title                                                                                                                                                                                                                                                                                                                        |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1               | Share Purchase Agreement, dated as of January 10, 2019, by and between the Company and Archer-Daniels-Midland Company (portions of this exhibit have been omitted pursuant to a confidential treatment request, which has been granted) (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on March 4, 2019). |
| 3.1               | Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended September 30, 2007).                                                                                                                                                                    |
| 3.2               | Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended September 30, 2009).                                                                                                                                    |
| 3.3               | Second Amended and Restated Bylaws, dated October 11, 2017 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on October 17, 2017).                                                                                                                                                                           |
| 4.1               | Form of Certificate of Common Stock (incorporated by reference to Appendix E to the Company's Definitive Proxy Statement filed on September 27, 2001).                                                                                                                                                                               |
| 4.2               | * Description of Capital Stock of the Company.                                                                                                                                                                                                                                                                                       |
| 10.1              | † Fifth Amended and Restated Service Agreement, dated as of April 15, 2014, between the Company, Protechnics II, Inc. and Chisholm Management, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on April 21, 2014).                                                                                   |
| 10.2              | † Letter Agreement, dated February 13, 2017, among the Company, Protechnics II, Inc. and Chisholm Management, Inc. amending the Fifth Amended and Restated Service Agreement among such parties (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed on February 17, 2017).                                    |
| 10.3              | † Employment Agreement, dated effective March 16, 2018, between the Company and Joshua A. Snively, Sr. (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on March 22, 2018).                                                                                                                                |
| 10.4              | † Form of Restricted Stock Agreement, dated March 16, 2018, between the Company and Joshua A. Snively, Sr. and Matthew B. Marietta (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed on March 22, 2018).                                                                                                    |
| 10.5              | † 2018 Long-Term Incentive Plan (incorporated by reference to Exhibit A to the Company's definitive proxy statement on Schedule 14A filed on March 30, 2018).                                                                                                                                                                        |
| 10.6              | † Employment Agreement, dated effective December 20, 2018, between the Company and Elizabeth T. Wilkinson (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 27, 2018).                                                                                                                          |
| 10.7              | † Form of Restricted Stock Agreement, dated December 27, 2018, between the Company and Elizabeth T. Wilkinson (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on December 27, 2018).                                                                                                                      |
| 10.8              | † 2019 Non-Employee Director Incentive Plan (incorporated by reference to Exhibit A to the Company's definitive proxy statement on Schedule 14A filed on April 24, 2019).                                                                                                                                                            |
| 10.9              | † Amendment to 2012 Employee Stock Purchase Plan (incorporated by reference to Exhibit B to the Company's definitive proxy statement on Schedule 14A filed on April 24, 2019).                                                                                                                                                       |
| 10.10             | † Amendment to 2018 Long-Term Incentive Plan (incorporated by reference to Exhibit C to the Company's definitive proxy statement on Schedule 14A filed on April 24, 2019).                                                                                                                                                           |
| 10.11             | *** Supply Agreement (Terpene), dated as of February 28, 2019, by and among the Company, Florida Chemical Company, LLC and Archer-Daniels-Midland Company (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2019).                                                               |
| 10.12             | *** Supply Agreement (Citrus Burst), dated as of February 28, 2019, by and between Florida Chemical Company, LLC and Flotek Chemistry, LLC (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2019).                                                                              |
| 10.13             | Cooperation Agreement, dated as of March 19, 2019, by and among the Company and BLR Partners LP and its affiliates (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on March 20, 2019).                                                                                                                    |
| 10.14             | † Employment Agreement, dated effective as of April 1, 2019, by and between the Company and John W. Chisholm (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on May 24, 2019).                                                                                                                            |
| 10.15             | † First Amended and Restated Employment Agreement, dated effective as of April 1, 2019, by and between the Company and Elizabeth T. Wilkinson (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on May 24, 2019).                                                                                           |
| 10.16             | † Termination and Release Agreement, dated as of May 20, 2019, by and among the Company, John W. Chisholm, Protechnics II, Inc. and Chisholm Management, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 2019).                                                            |

| Exhibit Number |    | Exhibit Title                                                                                                                                                                                                                                   |
|----------------|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.17          | †  | Stand-Alone Cash-Settled Restricted Stock Unit Agreement, dated as of May 20, 2019, by and between the Company and John W. Chisholm (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarter ended June 30, 2019). |
| 10.18          | †  | Restricted Stock Agreement, dated as of May 24, 2019, by and between the Company and John W. Chisholm (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarter ended June 30, 2019).                               |
| 10.19          | †  | Form of Restricted Stock Agreement pursuant to the Company's 2018 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarter ended June 30, 2019).                                          |
| 10.20          | †  | Form of Restricted Stock Agreement pursuant to the Company's 2019 Non-Employee Director Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q for the quarter ended June 30, 2019).                              |
| 10.21          | †  | Amendment No. 1 to Employment Agreement, dated October 18, 2019, by and between the Company and John W. Chisholm (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 24, 2019).                               |
| 10.22          | †  | Guaranty, dated May 8, 2019, by John W. Chisholm in favor of the Company (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on October 24, 2019).                                                                       |
| 10.23          | †  | Employment Agreement, dated effective as of December 22, 2019, by and between the Company and John W. Gibson, Jr. (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 27, 2019).                             |
| 10.24          | †  | Stand-Alone Restricted Stock Unit Award Agreement, dated as of December 22, 2019, by and between the Company and John W. Gibson, Jr. (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on December 27, 2019).          |
| 10.25          | †  | Stand-Alone Time-Based Stock Option Award Agreement, dated as of December 22, 2019, by and between the Company and John W. Gibson, Jr. (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed on December 27, 2019).        |
| 10.26          | †  | Stand-Alone Performance-Based Stock Option Award Agreement, dated as of December 22, 2019, by and between the Company and John W. Gibson, Jr. (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed on December 27, 2019). |
| 21.1           | *  | List of Subsidiaries.                                                                                                                                                                                                                           |
| 23.1           | *  | Consent of Moss Adams, LLP.                                                                                                                                                                                                                     |
| 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.                                                                                                                                                                                                              |
| 104            |    | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).                                                                                                                                                       |

\* Filed with this Form 10-K.

\*\* Furnished with this Form 10-K, not filed.

\*\*\* Portions of this exhibit have been omitted pursuant to Item 601(b)(10) of Regulation S-K in order for them to remain confidential.

† Management contracts or compensatory plans or agreements.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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. Gibson Jr.  
**John W. Gibson Jr.**  
**President, Chief Executive Officer and Chairman of the Board**

Date: March 5, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature                                                          | Title                                                                                         | Date          |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|---------------|
| <u>/s/ JOHN W. GIBSON JR.</u><br><b>John W. Gibson Jr.</b>         | President, Chief Executive Officer and Chairman of the Board<br>(Principal Executive Officer) | March 5, 2020 |
| <u>/s/ ELIZABETH T. WILKINSON</u><br><b>Elizabeth T. Wilkinson</b> | Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer)     | March 5, 2020 |
| <u>/s/ MICHELLE M. ADAMS</u><br><b>Michelle M. Adams</b>           | Director                                                                                      | March 5, 2020 |
| <u>/s/ TED D. BROWN</u><br><b>Ted D. Brown</b>                     | Director                                                                                      | March 5, 2020 |
| <u>/s/ L. MELVIN COOPER</u><br>L. Melvin Cooper                    | Director                                                                                      | March 5, 2020 |
| <u>/s/ PAUL W. HOBBY</u><br>Paul W. Hobby                          | Director                                                                                      | March 5, 2020 |
| <u>/s/ L.V. "BUD" MCGUIRE</u><br><b>L.V. "Bud" McGuire</b>         | Director                                                                                      | March 5, 2020 |
| <u>/s/ DAVID NIERENBERG</u><br><b>David Nierenberg</b>             | Director                                                                                      | March 5, 2020 |

**FLOTEK INDUSTRIES, INC.  
LIST OF SUBSIDIARIES**

Flotek Chemistry, LLC

Oklahoma Limited Liability Company

Material Translogistics, Inc.

Texas Corporation

Flotek Industries FZE

Jebel Ali Free Zone Establishment

Flotek Services, LLC

Panama Limited Liability Company

USA Petrovalve, Inc.

Texas Corporation

Turbeco, Inc.

Texas Corporation

Flotek Export, Inc.

Texas Corporation

Flotek Paymaster, Inc.

Texas Corporation

Teledrift Company

Delaware Corporation

Flotek International, Inc.

Delaware Corporation

Flotek Hydralift, Inc.

Texas Corporation

Flotek Ecuador Investments, LLC

Texas Limited Liability Company

Flotek Ecuador Management, LLC

Texas Limited Liability Company

Flotek Chemical Ecuador Cia. Ltda.

Ecuador Limited Liability Company

Florida Chemical Company, Inc.

Delaware Corporation

Flotek Flavor & Fragrance, LLC

Delaware Limited Liability Company

Flotek Gulf, LLC

Omani Limited Liability Company

Flotek Gulf Research, LLC

Omani Limited Liability Company

Flotek Industries Holdings Limited

England and Wales Corporation

Flotek Industries UK Limited

England and Wales Corporation

Flotek Technologies ULC

British Columbia Unlimited Liability Company

Flotek Energetic Foundation - Making a Difference

Texas Nonprofit Corporation

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements filed on Form S-8 (Nos. 333-157276, 333-172596, 333-174983, 333-183617, 333-198757, 333-213407, and 333-225865) and on Form S-3 (Nos. 333-161552, 333-166442, 333-166443, 333-173806, 333-174199, 333-189555, 333-212864 and 333-219618) of our reports dated March 5, 2020, relating to the consolidated financial statements of Flotek Industries, Inc. and subsidiaries which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of new accounting standards, and the effectiveness of internal control over financial reporting of Flotek Industries, Inc. and subsidiaries appearing in this Annual Report (Form 10-K) for the year ended December 31, 2019.

/s/ Moss Adams LLP

Houston, Texas  
March 5, 2020

## CERTIFICATION

I, John W. Chisholm, certify that:

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

/s/ JOHN W. CHISHOLM

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

Date: March 5, 2020

# CERTIFICATION

I, Elizabeth T. Wilkinson, certify that:

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

/s/ ELIZABETH T. WILKINSON

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Elizabeth T. Wilkinson  
Executive Vice President and  
Chief Financial Officer

Date: March 5, 2020

**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 Annual Report of Flotek Industries, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ JOHN W. CHISHOLM

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

Date: March 5, 2020

**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 Annual Report of Flotek Industries, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ ELIZABETH T. WILKINSON

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Elizabeth T. Wilkinson  
Executive Vice President and  
Chief Financial Officer

Date: March 5, 2020