

BOOTS & COOTS INTERNATIONAL WELL CONTROL INC
Form 10-Q
August 13, 2001

=====

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

COMMISSION FILE NUMBER 1-13817

BOOTS & COOTS INTERNATIONAL
WELL CONTROL, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	11-2908692
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

777 POST OAK BOULEVARD, SUITE 800	
HOUSTON, TEXAS	77056
(Address of principal executive offices)	(Zip Code)

(713) 621-7911
Registrant's telephone number, including area code

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

The number of shares of the Registrant's Common Stock, par value \$.00001 per share, outstanding at August 10, 2001, was 40,931,000.

=====

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION
(unaudited)

PAGE

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Shareholders' Equity	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7-11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12-17
Item 3. Quantitative and Qualitative Disclosures about Market Risk.	17

PART II

OTHER INFORMATION

Item 1. Legal Proceedings	18
Item 2. Changes in Securities and Use of Proceeds	18
Item 3. Defaults Upon Senior Securities	18
Item 4. Submissions of Matters to a Vote of Security Holders	18
Item 5. Other Information	18
Item 6. Exhibits and Reports on Form 8-K.	19-21

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	DECEMBER 31, 2000	
	-----	-----
CURRENT ASSETS:		
Cash	\$ 1,416,000	\$
Accounts receivables - net of allowance of \$1,339,000 and \$927,000 (unaudited) at December 31, 2000 and June 30, 2001, respectively.	5,620,000	
Restricted receivables.	-	
Inventories	401,000	
Prepaid expenses and other current assets	547,000	

Total current assets.	7,984,000	

PROPERTY AND EQUIPMENT- net	7,971,000	
OTHER ASSETS:		
Goodwill - net.	1,903,000	
Deposits and other - net.	268,000	

Total assets.	\$ 18,126,000	\$
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short term debt and current maturities of long-term debt and notes payable. \$	100,000	\$
Accounts payable.	5,343,000	
Accrued liabilities and customer advances	6,559,000	

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Total current liabilities	12,002,000	
LONG-TERM DEBT AND NOTES PAYABLE - net of current maturities.	12,520,000	
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY (DEFICIT):		
Preferred stock (\$.00001 par, 5,000,000 shares authorized, 365,000 and 304,000 (unaudited) shares issued and outstanding at December 31, 2000 and June 30, 2001, respectively)	-	
Common stock (\$.00001 par, 125,000,000 shares authorized, 31,692,000 and 40,931,000 (unaudited) shares issued and outstanding at December 31, 2000 and June 30, 2001, respectively)	-	
Additional paid-in capital.	53,098,000	
Accumulated deficit	(59,494,000)	
Total shareholders' equity (deficit).	(6,396,000)	
Total liabilities and shareholders' equity (deficit).	\$ 18,126,000	\$

See accompanying notes to condensed consolidated financial statements.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		
	2000	2001	
REVENUES	\$ 4,449,000	\$12,076,000	\$11,
COSTS AND EXPENSES:			
Cost of Sales and Operating Expenses	4,271,000	8,585,000	10,
Selling, General and Administrative.	825,000	1,244,000	1,
Depreciation and Amortization.	673,000	531,000	1,
	5,769,000	10,360,000	13,
Operating Income (Loss).	(1,320,000)	1,716,000	(1,
Interest expense, net and other.	3,026,000	740,000	6,
Income (Loss) From Continuing Operations	(4,346,000)	976,000	(7,
Income (Loss) From Discontinued Operations, net of Income Taxes.	(62,000)	--	
Net Income (Loss).	(4,408,000)	976,000	(7,
Preferred Dividend Requirements & Accretions	119,000	694,000	
Net Income (Loss) Attributable to Common Shareholders.	\$ (4,527,000)	\$ 282,000	\$ (7,

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Basic Earnings (Loss) per Common Share:

Continuing Operations	\$ (0.13)	\$ 0.01	\$
Discontinued Operations	\$ 0.00	\$ 0.00	\$
Net Income (loss)	\$ (0.13)	\$ 0.01	\$

Weighted Average Common Shares Outstanding - Basic	33,819,000	40,522,000	34,
--------------------------------------------------------------	------------	------------	-----

Diluted Earnings (Loss) per Common Share:

Continuing Operations	\$ (0.13)	\$ 0.01	\$
Discontinued Operations	\$ 0.00	\$ 0.00	\$
Net Income (loss)	\$ (0.13)	\$ 0.01	\$

Weighted Average Common Shares Outstanding - Diluted	33,819,000	41,344,000	34,
----------------------------------------------------------------	------------	------------	-----

See accompanying notes to condensed consolidated financial statements.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
SIX MONTHS ENDED JUNE 30, 2001
(UNAUDITED)

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMU DEFI
	SHARES	AMOUNT	SHARES	AMOUNT		
BALANCES, December 31, 2000	365,000	\$ -	31,692,000	\$ -	\$53,098,000	\$ (59,49
Warrant discount						
Accretion	-	-	-	-	27,000	(2
Common stock issued for services and settlements . .	-	-	1,109,000	-	575,000	
Preferred stock dividends accrued	-	-	-	-	1,401,000	(1,40
Preferred stock conversion to common stock .	(61,000)	-	8,130,000	-	-	
Warrants issued for consulting services	-	-	-	-	54,000	
Transaction costs of convertible debt financing	-	-	-	-	(101,000)	
Net Income	-	-	-	-	-	1,74
BALANCES, June 30, 2001	304,000	\$ -	40,931,000	\$ -	\$55,054,000	\$ (59,17

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

See accompanying notes to condensed consolidated financial statements.

5

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (7,091,000)	\$ 1,743,000
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,337,000	1,060,000
Bad debt expense.	130,000	286,000
Equity issued for services and settlements.	3,783,000	54,000
Net cash provided by operating activities before changes in assets and liabilities	(1,841,000)	3,143,000
Changes in operating assets and liabilities:		
Receivables	70,000	(4,232,000)
Inventories	112,000	33,000
Prepaid expenses and other current assets	482,000	118,000
Deferred financing costs and other assets	(809,000)	(30,000)
Accounts payable.	(506,000)	1,156,000
Accrued liabilities and customer advances	2,321,000	(1,160,000)
Change in net assets of discontinued operations	(2,668,000)	-
Net cash used in operating activities	(2,839,000)	(972,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposition of assets	163,000	1,000
Property and equipment additions.	(68,000)	(79,000)
Net cash provided by/used in investing activities	95,000	(78,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt repayments	(15,529,000)	--
Borrowings under line of credit	12,756,000	--
Proceeds from pledging arrangement.	--	592,000
Proceeds from issuance of convertible debt.	6,275,000	--
Net cash provided by financing activities	3,502,000	592,000
Net increase (decrease) in cash and cash equivalents.	758,000	(458,000)
CASH AND CASH EQUIVALENTS, Beginning of Period.	222,000	1,416,000
CASH AND CASH EQUIVALENTS, End of Period.	\$ 980,000	\$ 958,000

Supplemental Cash Flow Disclosures:

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Cash paid for interest	\$	732,000	\$	6,000
Non-cash Investing and Financing Activities:				
Transaction costs of convertible debt financing.		--		(101,000)
Common stock issued for services and settlements		--		575,000
Preferred stock dividends accrued and accretions	\$	238,000	\$	1,428,000
		=====		=====

See accompanying notes to condensed consolidated financial statements.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2001
(UNAUDITED)

A. GOING CONCERN

The Company receives the majority of its revenues from customers in the energy industry. Demand for the Company's products and services is impacted by the number and size of projects available, which fluctuate as changes in oil and gas prices affect customers' exploration and production activities, forecasts and budgets. These fluctuations have a significant effect on the Company's cash flows.

Recent activity levels in the oil and gas sector have increased the frequency of high-risk work and the volume of prevention related projects. However, the Company's well control business has only recently begun to benefit to a meaningful degree from an increase in the volume of critical events. In the past, the well control business has provided the Company with the opportunity for profitable operating activities, but the timing of critical events is unpredictable. Consequently, the Company's financial performance has been, and continues to be, subject to significant fluctuations.

The relatively low incidences of critical events over the last two years have negatively affected the Company's financial position. In response, commencing in 1999 and continuing into 2000, the Company (a) downsized personnel, (b) improved its working capital, (c) closed and/or consolidated certain field offices, (d) consolidated administrative functions, and (e) discontinued certain business lines to ensure that the Company's resources were deployed in its most profitable operations. The Company's initial efforts to rationalize its operations were not sufficient to prevent significant operating losses in 1999 and 2000. During the first half of 2001, the result of these efforts was fully in place and, in combination with an increase in operating activity, contributed to a positive net income during the period.

The prior years' operating losses resulted in an impairment of the Company's liquidity and an inability to pay certain vendors in a timely manner. This hampered the Company's capacity to hire sub-contractors, obtain materials and supplies, and otherwise conduct effective or efficient operations. To alleviate the Company's liquidity problems and to improve its overall capital structure, the Company initiated and completed a program in 2000 to raise new funds, sell assets of certain subsidiaries, retire the Company's existing senior debt, restructure its subordinated debt and increase its shareholders' equity.

During the year ended December 31, 2000, the Company received approximately \$8,700,000 in funds from the purchase of participation interests in its senior secured credit facility with Comerica Bank-Texas. In connection with this

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

financing, the Company issued 147,058 shares of common stock and warrants representing the right to purchase an aggregate of 8,729,985 shares of common stock of the Company to the participation interest holders and warrants to purchase an aggregate of 3,625,000 shares of common stock to the investment group that arranged the financing. The warrants have a term of five years and can be exercised by the payment of cash in the amount of \$0.625 per share as to 8,729,985 shares and \$0.75 per share as to 3,625,000 shares of common stock, or by relinquishing a number of shares subject to the warrant with a market value equal to the aggregate exercise price of the portion of the warrant being exercised. On December 28, 2000, \$7,729,985 of the participation interest, plus \$757,315 in accrued interest thereon, was exchanged for 89,117 shares of Series H Cumulative Senior Preferred Stock in the Company. The remaining \$1,000,000 of the participation interest was outstanding as senior secured debt as of June 30, 2001.

On September 28, 2000, the Company announced that it closed the sale of the assets of the Baylor Company and its subsidiaries to National Oilwell, Inc. The proceeds from the sale were approximately \$29,000,000 cash. Comerica Bank-Texas, the Company's primary senior secured lender at that time, was paid in full as a component of the transaction. Specialty Finance Fund I, LLC, as a participant in the Comerica senior facility, remains as the senior secured lender.

On October 24, 2000, the Company announced that it had reached an agreement in principle with Prudential Insurance Company of America, in the form of a letter of intent, regarding the restructuring of the Company's subordinated debt with Prudential. The Company had been in default under its subordinated note agreement with Prudential since the second quarter of 1999. A restructuring agreement was executed by both parties on December 28, 2000. The Prudential restructuring agreement provided that the aggregate indebtedness due to Prudential be resolved by the Company: (i) paying \$12,000,000 cash at closing, (ii) establishing \$7,200,000 of new subordinated debt, (iii) issuing \$5,000,000 face value of Series E Cumulative Senior Preferred Stock (\$2,850,000 fair value) and (iv) issuing \$8,000,000 face value of Series G Cumulative Convertible

7

Preferred Stock (\$2,600,000 fair value). In addition, \$500,000 is contingently payable upon the Company securing a new term loan with a third party lender. All interest payments and dividends are paid in kind and deferred for two years from the date of closing. Additionally, as a component of the transaction, Prudential received newly issued warrants to purchase 8,800,000 shares of the Company's common stock for \$0.625 per share and the Company agreed to re-price the existing common stock purchase warrants to purchase 3,165,000 currently held by Prudential to \$0.625 per share. The Company has the right to repurchase, at a discount to face value, all of the debt and stock issued to Prudential for an agreed period of time.

The refinancing of the Company's debt with Prudential qualified as a troubled debt restructuring under the provisions of Statement of Financial Accounting Standards (SFAS) No. 15. As a result of the application of this accounting standard, the total indebtedness due to Prudential, inclusive of accrued interest, was reduced by the cash and fair market value of securities issued by the Company, and the residual balance of the indebtedness was recorded as the new carrying value of the subordinated note due to Prudential. Consequently, the \$7,200,000 face value of the subordinated note is recorded on the Company's balance sheet at \$11,520,000. The additional carrying value of the debt in excess of face value represents the accrual of future interest expense due on the face value of the subordinated note to Prudential. The remaining excess of amounts previously due Prudential over the new carrying value was \$2,444,000 and was recognized as an extraordinary gain in the year ended

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

December 31, 2000.

The financing obtained during 2000 from Specialty Finance Fund I, LLC, and the restructuring of the subordinated debt with Prudential has a potentially significant dilutive impact on existing common shareholders. This could adversely affect the market price for the Company's common stock and limit the price at which new stock can be issued for future capital requirements.

During the six months ended June 30, 2001, the Company generated a net cash deficit from operating activities of \$972,000 and the Company utilized net cash of \$78,000 in investing activities. Overall, the Company's net cash position decreased by \$458,000 during the period. At June 30, 2001, the Company had a cash balance of \$958,000 (see Part 1, Item 1, Consolidated Statement of Cash Flows).

As of June 30, 2001, the Company's current assets totaled approximately \$11,321,000 and current liabilities were \$12,116,000, resulting in a working capital deficit of approximately \$795,000. The Company's highly liquid current assets, represented by cash of \$958,000 and receivables of \$9,566,000, were collectively \$1,592,000 less than the amount of current liabilities. Included in current liabilities is a provision of \$1,833,000 related to a judgment against the Company for a guaranty (see Part 2, Item 1, Legal Proceedings). The Company has recently reached an agreement in principle to resolve this litigation through which the Company is obligated to pay the full amount of that judgment by August 31, 2001, and has secured that obligation with a first lien against the accounts receivable of the Company up to the amount of the judgment. The payment of this obligation by August 31, 2001, absent additional financing, will have a significant negative impact on the Company's liquidity. To alleviate the Company's liquidity problems the Company continues to pursue all available opportunities to raise new funds through both debt and equity financing, and has recently entered into an arrangement whereby the Company may pledge certain of its trade receivables in exchange for cash advances pursuant to a facility agreement with a financial institution (see note G). This financing arrangement provides the Company with an opportunity to obtain short-term borrowings for limited periods of time.

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, the uncertainties surrounding the sufficiency of its future cash flows and the lack of firm commitments for additional capital raises substantial doubt about the ability of the Company to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

B. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete annual financial statements. The accompanying condensed consolidated financial statements include all adjustments, including normal recurring accruals, which, in the opinion of management, are necessary for a fair presentation of the financial position at such date and the results of operations and cash flows for these periods.

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

The results of operations for the three month and six month periods ended June 30, 2000 and 2001 are not necessarily indicative of the results to be expected for the full year.

The Company has filed a Form 10-Q/A amending Item 1 and Item 2 of the Company's quarterly report on Form 10-Q for the period ended March 31, 2000 (the "Original Form 10-Q") filed with the Securities and Exchange Commission on July 17, 2000. The purpose of the Form 10-Q/A was to amend the Company's first quarter financial information for 2000. This amendment resulted from a \$1,679,000 provision to Other Expense required to properly reflect the fair value attributable to certain equity transactions within that quarter. After making this amendment, the Company's first quarter net loss increased by \$1,679,000 (\$0.05 per share). The amendment also increased the year-to-date net loss at June 30, 2000 by the same amount.

Certain reclassifications have been made to the prior periods to conform to the current presentation.

Recently Issued Accounting Standards - In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") was issued. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument be measured at its fair value, recorded in the balance sheet as either an asset or liability and that changes in the derivative's fair value be recognized currently in earnings. SFAS 133, as amended, was adopted by the Company on January 1, 2001. The adoption in January 2001 did not have a material impact on the financial statements of the Company, as the Company has not entered into arrangements usually associated with derivative instruments historically or during the six months ended June 30, 2001.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets attributable to acquisitions prior to July 1, 2001, the amortization provisions of SFAS 142 will be effective January 1, 2002. Management estimates that the adoption of SFAS 142's requirement to not amortize goodwill will increase earnings by approximately \$60,000 in 2002. Management is currently evaluating the effect that adoption of the other provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

C. DISCONTINUED OPERATIONS

The Company's subsidiary ITS Supply Corporation ("ITS") filed in Corpus Christi, Texas for protection under Chapter 11 of the U.S. Bankruptcy Code. ITS is now proceeding to liquidate its assets and liabilities pursuant to Chapter 7 of Title 11. At the time of the filing, ITS had total liabilities of approximately \$6,900,000 and tangible assets of approximately \$950,000. The Company has an outstanding guaranty on ITS debt upon which a judgment against the Company was entered by a state district court in the amount of approximately \$1,833,000. The judgement creditor holds a lien on the receivables of the

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Company's Well Control Subsidiary. The judgment creditor has agreed not to enforce the judgment prior to August 31, 2001. (See Part 2, Item 1, Legal Proceeding)

On September 28, 2000, the Company announced that it closed the sale of the assets of the Baylor Company and its subsidiaries to National Oilwell, Inc. The proceeds from the sale were approximately \$29,000,000 in cash. Comerica Bank-Texas, the Company's primary senior secured lender at the time, was paid in full as a component of the transaction.

D. COMMITMENTS AND CONTINGENCIES

The Company is involved in or threatened with various legal proceedings from time to time arising in the ordinary course of business. Management of the Company does not believe that any liabilities resulting from any such current proceedings will have a material adverse effect on its consolidated operations or financial position.

9

As previously discussed the Company's subsidiary ITS Supply Corporation ("ITS") filed in Corpus Christi, Texas on May 18, 2000, for protection under Chapter 11 of the U.S. Bankruptcy Code. ITS is now proceeding to liquidate its assets and liabilities pursuant to Chapter 7 of Title 11. At the time of the filing, ITS had total liabilities of approximately \$6,900,000 and tangible assets of approximately \$950,000. The Company has an outstanding guaranty on ITS debt upon which a judgment against the Company was entered by a state district court in the amount of approximately \$1,833,000. The judgment creditor has agreed not to enforce the judgment prior to August 31, 2001. (See Part 2, Item 1, Legal Proceeding)

On April 27, 2001, in the United States Bankruptcy Court for the Southern District of Texas, the Chapter 7 Trustee in the bankruptcy proceeding of ITS Supply Corporation, the Company's subsidiary, filed a complaint against Comerica Bank-Texas, the Company and various subsidiaries of the Company for a formal accounting of (1) all lockbox transfers that occurred between ITS and Comerica Bank, et al. and (2) all intercompany transfers between ITS and the Company or subsidiaries of the Company. The Chapter 7 Trustee seeks an accounting to determine if any of the transfers between the parties are avoidable under either Federal or State of Texas statutes and seeks repayment to ITS of all such amounts. The Trustee believes that approximately \$400,000 of lockbox transfers and \$3,000,000 of intercompany transfers were made between the parties. The Company believes it is not probable that an accounting of the transactions between the parties will demonstrate there is a liability owing by the Company to the ITS Chapter 7 estate.

E. BUSINESS SEGMENT INFORMATION

Information concerning operations in different business segments at June 30, 2000 and 2001, and for the three month periods then ended is presented below. The Company considers that it operates in three segments: Prevention, Response and Restoration. Intercompany transfers between segments were not material. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. For purposes of this presentation, general and corporate expenses have been allocated between segments on a pro rata basis based on revenue.

Business segment operating data from continuing operations is presented for purposes of discussion and analysis of operating results. On January 1, 2001, the Company redefined the segments that it operates in as a result of the decision to discontinue ITS and Baylor business operations. The current

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

segments are Prevention, Response and Restoration. Most of the Company's subsidiaries operate in all three segments. Accordingly, business segment disclosures included in this report reflect this classification for all periods presented. Identifiable assets at June 30, 2000 exclude \$32,652,000 of net assets of discontinued operations.

	Prevention	Response	Restoration	Consolidated
Six months ended June 30, 2001:				
Net Operating Revenues	\$ 1,647,000	\$17,296,000	\$ 2,106,000	\$ 21,049,000
Operating Income (Loss)	560,000	1,840,000	(240,000)	2,160,000
Identifiable Operating Assets.	1,605,000	16,854,000	2,052,000	20,511,000
Capital Expenditures	--	79,000	--	79,000
Depreciation and Amortization.	99,000	834,000	127,000	1,060,000
Interest Expense	34,000	190,000	--	224,000
Six months ended June 30, 2000:				
Net Operating Revenues	\$ 1,454,000	\$ 7,681,000	\$ 2,837,000	\$ 11,972,000
Operating Income (Loss)	(218,000)	(28,000)	(1,500,000)	(1,746,000)
Identifiable Operating Assets.	2,770,000	14,636,000	5,406,000	22,812,000
Capital Expenditures	--	68,000	--	68,000
Depreciation and Amortization.	153,000	844,000	340,000	1,337,000
Interest Expense	356,000	2,859,000	--	3,215,000

For the six month periods ended June 30, 2000 and 2001, the Company's revenue mix was 81% and 74% domestic, respectively, and 19% and 26% foreign, respectively. (See item 2, Results of Operations, for additional information and quarterly analysis)

10

F. EARNINGS PER SHARE

The weighted average number of shares used to compute basic and diluted earnings per share for the three and six month periods ended June 30, 2000 and 2001, respectively, is illustrated below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	2001	2000	2001
Numerator:				
For basic and diluted earnings per share-				
Net income (Loss) Attributable to				
Common Shareholders	\$ (4,527,000)	\$ 282,000	\$ (7,329,000)	\$ 315,000
Denominator:				
For basic earnings per share-				
Weighted-average shares	33,819,000	40,522,000	34,536,000	39,051,000
Effect of dilutive securities:				
Preferred stock conversions, stock options				
and warrants	-	822,000	-	1,599,000
Denominator:				
For diluted earnings per share -				

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Weighted-average shares and
Assumed conversions

33,819,000 41,344,000 34,536,000 40,650,

For the three and six month periods ended June 30, 2001, there were (1) 32,656,000 and 33,441,000, respectively, of common shares issuable upon exercise of stock purchase warrants; (2) 1,680,000 common shares issuable upon conversion of senior convertible debt; (3) 7,913,000 common shares issuable upon exercise of stock options and (4) 25,508,000 common shares issuable upon conversion of convertible preferred stock which were not included in the computation of earnings per share because to do so would have been antidilutive for the periods presented. For the three and six month periods ended June 30, 2000, no stock options, warrants or convertible securities were included in the computation of earnings per share because to do so would have been antidilutive for the periods presented.

G. FINANCING ARRANGEMENT

On June 18, 2001, the Company entered into an agreement with KBK Financial, Inc. ("KBK") pursuant to which the Company pledged certain of its accounts receivable to KBK for a cash advance against the pledged receivables. The agreement allows the Company to, from time to time, pledge additional accounts receivable to KBK in an aggregate amount not to exceed \$5,000,000 with an initial limitation of \$2,875,000. The Company paid certain fees to KBK for the facility and will pay additional fees of one percent per annum on the unused portion of the facility and a termination fee of up to two percent of the maximum amount of the facility. The facility provides the Company an initial advance of approximately eighty-five percent of the gross amount of each receivable pledged to KBK. Upon collection of the receivable, the Company receives an additional residual payment net of variable financing charges. The Company's obligations for representations and warranties regarding the accounts receivable pledged to KBK are secured by a first lien on certain other accounts receivable of the Company. The facility also provides for financial reporting and other covenants similar to those in favor of the senior lender of the Company. The Company had \$783,000 of its accounts receivable pledged to KBK that remained uncollected as of June 30, 2001 and, accordingly, this amount has been classified as a restricted asset on the balance sheet as of that date.

11

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

On January 1, 2001, the Company redefined the segments that it operates in as a result of the decision to discontinue ITS and Baylor business operations. The current segments are Prevention, Response and Restoration. Most of the Company's subsidiaries operate in all three segments.

The Prevention segment consists of "non-event" services that are designed to reduce the number and severity of critical well events to oil and gas operators. The scope of these services include training, contingency planning, well plan reviews, services associated with the Company's Safeguard programs and service fees in conjunction with the WELLSURE(R) risk management program. All of these services are designed to significantly reduce the risk of a well blowout or other critical response event. Each of the Company's subsidiaries contributes revenues to this segment, with the majority of the contributions from the Well Control and Risk Management subsidiaries.

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

The Response segment consists of personnel and equipment services provided during an emergency response such as a critical well event or a hazardous material response. These services are designed to minimize response time and damage while maximizing safety. Response revenues typically provide high gross profit margins. However, when the Company responds to a critical event under the WELLSURE(R) program, the Company acts as a general contractor and engages third party services, which form part of the revenues recognized by the Company. This revenue contribution has the ability to significantly lower the overall gross profit margins of the segment. Each of the Company's subsidiaries contributes revenues to this segment.

The Restoration segment consists of "post-event" services designed to minimize the effects of a critical emergency event as well as industrial and remediation service. The scope of these services range from environmental compliance and disposal services to facility decontamination services in the event of a plant closing. Restoration services are a natural extension of response service assignments. Each of the Company's business units contributes revenues to this segment, with the majority of the contributions from the Special Services division.

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto and the other financial information included in this report and contained in the Company's periodic reports previously filed with the Commission.

The Company completed the acquisitions of: Boots & Coots, L.P. as of July 31, 1997; ABASCO, Inc. as of September 25, 1997; ITS Supply Corporation as of January 2, 1998; Boots & Coots Special Services, Inc. (formerly known as Code 3, Inc.) as of February 20, 1998; Baylor Company as of July 23, 1998, and HAZ-TECH Environmental Services, Inc. as of November 4, 1998. For all periods presented, the operations of ITS and Baylor have been reclassified as discontinued operations.

Business segment operating data from continuing operations is presented for purposes of discussion and analysis of operating results. On January 1, 2001, the Company redefined the segments that it operates in as a result of the decision to discontinue the ITS and Baylor business operations. The current segments are Prevention, Response and Restoration. Most of the Company's subsidiaries operate in all three segments. Accordingly, business segments disclosures included in this report reflect this classification for all periods presented.

	Three Months Ended June 30,		Six Months End June 30,	
	2000	2001	2000	2001
Revenues				
Prevention	\$ 958,000	\$ 497,000	\$ 1,454,000	\$ 1,600,000
Response	2,302,000	10,301,000	7,681,000	17,200,000
Restoration.	1,189,000	1,278,000	2,837,000	2,100,000
	<u>\$ 4,449,000</u>	<u>\$12,076,000</u>	<u>\$11,972,000</u>	<u>\$21,000,000</u>

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Cost of Sales and Operating Expenses				
Prevention	\$ 782,000	\$ 435,000	\$ 1,218,000	\$ 7
Response	2,046,000	7,049,000	5,854,000	12,5
Restoration.	1,443,000	1,101,000	3,624,000	1,9
	<u>\$ 4,271,000</u>	<u>\$ 8,585,000</u>	<u>\$10,696,000</u>	<u>\$15,3</u>
Selling, General and Administrative Expenses (1)				
Prevention	\$ 246,000	\$ 35,000	\$ 301,000	\$ 1
Response	383,000	1,075,000	1,011,000	2,0
Restoration.	196,000	134,000	373,000	2
	<u>\$ 825,000</u>	<u>\$ 1,244,000</u>	<u>\$ 1,685,000</u>	<u>\$ 2,4</u>
Depreciation and Amortization (2)				
Prevention	\$ 112,000	\$ 43,000	\$ 153,000	\$
Response	382,000	438,000	844,000	8
Restoration.	179,000	50,000	340,000	1
	<u>\$ 673,000</u>	<u>\$ 531,000</u>	<u>\$ 1,337,000</u>	<u>\$ 1,0</u>
Operating Income (Loss)				
Prevention	\$ (182,000)	\$ (16,000)	\$ (218,000)	\$ 5
Response	(509,000)	1,739,000	(28,000)	1,8
Restoration.	(629,000)	(7,000)	(1,500,000)	(2
	<u>\$ (1,320,000)</u>	<u>\$ 1,716,000</u>	<u>\$ (1,746,000)</u>	<u>\$ 2,1</u>