

BOOTS & COOTS INTERNATIONAL WELL CONTROL INC  
Form 10-Q  
November 14, 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 SEPTEMBER 30, 2001

-----

COMMISSION FILE NUMBER 1-13817

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

11-2908692  
(I.R.S. Employer  
Identification No.)

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

77056  
(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 November 12, 2001, was 40,931,000.

=====

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION  
(unaudited)

	PAGE
	----
Item 1. Financial Statements	3

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

	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	7-12
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13-18
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	18

PART II

OTHER INFORMATION

Item 1.	Legal Proceedings	19
Item 2.	Changes in Securities and Use of Proceeds	19
Item 3.	Defaults Upon Senior Securities	19
Item 4.	Submissions of Matters to a Vote of Security Holders	19
Item 5.	Other Information	19
Item 6.	Exhibits and Reports on Form 8-K	20

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31, 2000	S
	-----	-----
CURRENT ASSETS:		
Cash . . . . .	\$ 1,416,000	\$
Accounts receivable - net of allowance of \$1,339,000 and \$692,000 (unaudited) at December 31, 2000 and September 30, 2001, respectively .	5,620,000	
Restricted Assets . . . . .	-	
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	
	-----	-----
Total current liabilities . . . . .	12,002,000	

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

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 322,000 (unaudited) shares issued and outstanding at December 31, 2000 and September 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 September 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 SEPTEMBER 30,		
	2000	2001	
	-----	-----	-----
REVENUES . . . . .	\$ 5,631,000	\$ 8,494,000	\$ 17,000,000
COSTS AND EXPENSES:			
Cost of Sales and Operating Expenses . . . . .	5,973,000	6,852,000	16,000,000
Selling, General and Administrative . . . . .	1,552,000	890,000	3,000,000
Depreciation and Amortization . . . . .	760,000	519,000	2,000,000
Loan Guaranty Charge (Note D) . . . . .	1,800,000	--	1,000,000
	-----	-----	-----
	10,085,000	8,261,000	23,000,000
	-----	-----	-----
Operating Income (Loss) . . . . .	(4,454,000)	233,000	(6,000,000)
Interest Expense, Net and Other . . . . .	3,593,000	(10,000)	9,000,000
	-----	-----	-----
Income (Loss) From Continuing Operations Before Income Taxes . .	(8,047,000)	243,000	(15,000,000)
Income Tax Expense . . . . .	--	126,000	--
	-----	-----	-----
Income (Loss) From Continuing Operations . . . . .	(8,047,000)	117,000	(15,000,000)

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

Gain From Discontinued Operations, net of Income Taxes. . . . .	830,000	--	1
Loss From Sale of Discontinued Operations, net of Income Taxes. . . . .	(2,505,000)	--	(2)
Net Income (Loss) . . . . .	(9,722,000)	117,000	(16)
Preferred Dividend Requirements & Accretions. . . . .	119,000	701,000	
Net Loss Attributable to Common Shareholders. . . . .	\$ (9,841,000)	\$ (584,000)	\$ (17)
Basic Earnings (Loss) per Common Share:			
Continuing Operations. . . . .	\$ (0.26)	\$ (0.01)	\$
Discontinued Operations. . . . .	\$ (0.05)	\$ 0.00	\$
Net Loss . . . . .	\$ (0.31)	\$ (0.01)	\$
Weighted Average Common Shares Outstanding - Basic and Diluted. . . . .	32,257,000	40,931,000	34

See accompanying notes to condensed consolidated financial statements.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)  
NINE MONTHS ENDED SEPTEMBER 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 . . . . .	-	-	-	-	40,000	(4
Common stock issued for services and settlements . . .	-	-	1,109,000	-	575,000	
Preferred stock dividends accrued. . . . .	-	-	-	-	2,089,000	(2,08
Preferred stock conversion to common stock . .	(61,000)	-	8,130,000	-	-	
PIK shares declared on preferred stock. . . . .	18,000	-	-	-	-	
Warrants issued for consulting services. . . . .	-	-	-	-	54,000	
Transaction costs of convertible debt financing . . . . .	-	-	-	-	(101,000)	

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

Net Income . . . . .	-	-	-	-	-	1,860
BALANCES, September 30, 2001 . . .	322,000	\$ -	40,931,000	\$ -	\$55,755,000	\$(59,760)

See accompanying notes to condensed consolidated financial statements.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss) . . . . .	\$ (16,813,000)	\$ 1,860,000
Adjustments to reconcile net income (loss) to net cash provided by or (used in) operating activities:		
Depreciation and amortization . . . . .	2,097,000	1,579,000
Bad debt expense . . . . .	100,000	139,000
Loss on sale of assets . . . . .	--	4,000
Equity issued for services and settlements . . . . .	3,639,000	54,000
Net cash provided by or (used in) operating activities before changes in assets and liabilities . . . . .	(10,977,000)	3,636,000
Changes in operating assets and liabilities:		
Receivables . . . . .	(598,000)	(2,028,000)
Restricted Assets . . . . .	--	(1,132,000)
Inventories . . . . .	56,000	44,000
Prepaid expenses and other current assets . . . . .	659,000	(410,000)
Deferred financing costs and other assets . . . . .	(1,082,000)	(22,000)
Accounts payable . . . . .	(2,551,000)	(113,000)
Accrued liabilities and customer advances . . . . .	5,013,000	(1,378,000)
Change in net assets of discontinued operations . . . . .	29,984,000	--
Net cash provided by or (used in) operating activities . . . . .	20,504,000	(1,403,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposition of assets . . . . .	--	52,000
Property and equipment additions . . . . .	(260,000)	(196,000)
Net cash used in investing activities . . . . .	(260,000)	(144,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Common stock options exercised . . . . .	15,000	--
Debt repayments . . . . .	(42,101,000)	--
Borrowings under line of credit . . . . .	27,317,000	--
Proceeds from exercise of redeemable stocks and warrants . . . . .	1,240,000	--
Proceeds from pledging arrangement . . . . .	--	665,000

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

Proceeds from issuance of convertible debt . . . . .	8,000,000	--
Net cash provided by or (used in) financing activities . . . .	(5,529,000)	665,000
Net increase (decrease) in cash and cash equivalents . . . . .	14,715,000	(882,000)
CASH AND CASH EQUIVALENTS, Beginning of Period. . . . .	222,000	1,416,000
CASH AND CASH EQUIVALENTS, End of Period. . . . .	\$ 14,937,000	\$ 534,000
Supplemental Cash Flow Disclosures:		
Cash paid for interest. . . . .	\$ 1,125,000	\$ 13,000
Cash paid for income tax. . . . .	\$ 326,000	\$ --
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. . . . .	\$ 357,000	\$ 2,129,000

See accompanying notes to condensed consolidated financial statements.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED SEPTEMBER 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 response work. 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 2001, 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 nine months 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 before preferred stock

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

dividends 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 address 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 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 September 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 Preferred Stock (\$2,600,000 fair value). In addition, \$500,000 is contingently

payable upon the Company securing a new credit facility or commercial financing arrangement. 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, through January 2, 2002, to repurchase, at a discount to face value, all of the debt and stock issued to Prudential.

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

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 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 nine months ended September 30, 2001, the Company generated a net cash deficit from operating activities of \$1,403,000 and the Company utilized net cash of \$144,000 in investing activities. Overall, the Company's net cash position decreased by \$882,000 during the period. At September 30, 2001, the Company had a cash balance of \$534,000 (see Part 1, Item 1, Consolidated Statement of Cash Flows).

As of September 30, 2001, the Company's current assets totaled approximately \$10,489,000 and current liabilities were \$10,702,000, resulting in a working capital deficit of approximately \$213,000. The Company's highly liquid current assets, represented by cash of \$534,000 and receivables of \$7,509,000 were collectively \$2,659,000 less than the amount of current liabilities. The Company is actively exploring new sources of financing, including the establishment of new credit facilities and the issuance of debt and/or equity securities. Additionally, the Company continues to pursue methods to expand its business activities and enhance its operating cash flow. However, absent new sources of financing, or if the Company does not significantly improve its operating performance, the Company may not have sufficient funds to meet its current obligations over the next twelve months and could be forced to dispose of additional assets or operations outside of the normal course of business in order to satisfy future liquidity requirements.

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



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

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

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 nine month periods ended September 30, 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

8

\$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 September 30, 2000 by the same amount.

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 nine months ended September 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 operating income 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.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS No. 143") which covers all legally enforceable obligations

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

associated with the retirement of tangible long-lived assets and provides the accounting and reporting requirements for such obligations. SFAS No. 143 is effective for the Company beginning January 1, 2003. Management has yet to determine the impact that the adoption of SFAS No. 143 will have on the Company's consolidated financial statements.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, ("SFAS No. 144") which supersedes Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of long-lived Assets and for long-lived Assets to be Disposed Of. SFAS No. 144 establishes a single accounting method for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and extends the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 also requires that an impairment loss be recognized for assets held-for-use when the carrying amount of an asset (group) is not recoverable. The carrying amount of an asset (group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (group), excluding interest charges. Estimated of future cash flows used to test the recoverability of a long-lived asset (group) must incorporate the entity's own assumptions about its use of the asset (group) and must factor in all available evidence. SFAS No. 144 is effective for the Company for the quarter ending March 31, 2002. Management has yet to determine the impact that the adoption of SFAS No. 144 will have on the Company's consolidated financial statements.

### 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. (see further discussion of ITS in Note D and 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.

9

### 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.

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 had 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 was paid in full by the Company on August 31, 2001. (See Part 2, Item 1, Legal Proceeding)

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

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 has been advised by bankruptcy counsel that it does not believe that it is 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. To provide security to Comerica Bank for any potential claims by the Chapter 7 trustee, the Company has pledged \$350,000 in the form of a certificate of deposit in favor of Comerica Bank. This amount has been classified as a restricted asset on the balance sheet as of September 30, 2001.

### E. BUSINESS SEGMENT INFORMATION

Information concerning operations in different business segments for the three and nine months ended September 30, 2000 and 2001, is presented below. 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. Accordingly, business segment disclosures included in this report reflect this classification for all periods presented. 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.

For the Three Months Ended September 30:

	Prevention	Response	Restoration	Consolidated
	-----	-----	-----	-----
2001:				
Net Operating Revenues . . . .	\$ 1,888,000	\$ 5,373,000	\$ 1,233,000	\$ 8,494,000
Operating Income (Loss) . . . .	310,000	513,000	(590,000)	233,000
Identifiable Operating Assets.	2,298,000	14,745,000	2,171,000	19,214,000
Capital Expenditures . . . . .	--	117,000	--	117,000
Depreciation and Amortization.	120,000	306,000	93,000	519,000
Interest Expense . . . . .	20,000	60,000	13,000	93,000
2000:				
Net Operating Revenues . . . .	\$ 371,000	\$ 4,537,000	\$ 723,000	\$ 5,631,000
Operating Loss . . . . .	(258,000)	(2,550,000)	(1,646,000)	(4,454,000)
Identifiable Operating Assets.	3,858,000	25,830,000	7,526,000	37,214,000
Capital Expenditures . . . . .	--	192,000	--	192,000
Depreciation and Amortization.	52,000	531,000	177,000	760,000
Interest Expense . . . . .	378,000	3,068,000	737,000	4,183,000

For the Nine Months Ended September 30:

	Prevention -----	Response -----	Restoration -----	Consolidated -----
2001:				
Net Operating Revenues . . . . .	\$ 3,535,000	\$22,669,000	\$ 3,339,000	\$ 29,543,000
Operating Income (Loss) . . . . .	749,000	2,949,000	(1,305,000)	2,393,000
Identifiable Operating Assets.	2,298,000	14,745,000	2,171,000	19,214,000
Capital Expenditures . . . . .	--	196,000	--	196,000
Depreciation and Amortization.	219,000	1,141,000	219,000	1,579,000
Interest Expense . . . . .	38,000	243,000	36,000	317,000
2000:				
Net Operating Revenues . . . . .	\$ 1,825,000	\$12,218,000	\$ 3,560,000	\$ 17,603,000
Operating Loss . . . . .	(476,000)	(2,579,000)	(3,145,000)	(6,200,000)
Identifiable Operating Assets.	3,858,000	25,830,000	7,526,000	37,214,000
Capital Expenditures . . . . .	--	260,000	--	260,000
Depreciation and Amortization.	205,000	1,375,000	517,000	2,097,000
Interest Expense . . . . .	767,000	5,158,000	1,473,000	7,398,000

For the nine month periods ended September 30, 2000 and 2001, the Company's revenue mix was 75% and 76% domestic, respectively, and 25% and 24% foreign, respectively. (See item 2, Results of Operations, for additional information and quarterly analysis.)

F. EARNINGS PER SHARE

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

	Three Months Ended September 30, -----		Nine Months September -----	
	2000	2001	2000	2001
Numerator:				
For basic and diluted earnings per share-				
Net Loss Attributable to				
Common Shareholders . . . . .	\$ (9,841,000)	\$ (584,000)	\$ (17,170,000)	\$ (2,000,000)
Denominator:				
For basic earnings per share-				
Weighted-average shares . . . . .	32,257,000	40,931,000	34,531,000	39,600,000
Effect of dilutive securities:				
Preferred stock conversions, stock options				
and warrants . . . . .	-	-	-	-
Denominator:				

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

For diluted earnings per share - Weighted-average shares and Assumed conversions. . . . .	32,257,000	40,931,000	34,531,000	39,6
	-----	-----	-----	-----

For the three and nine month periods ended September 30, 2000 and 2001 the Company incurred a loss to common shareholders before consideration of the income (loss) from discontinued operations. As a result, the potential dilutive effect of stock options, stock warrants and convertible securities was not calculated, because to do so would have been antidilutive for the periods presented.

The exercise price of the Company's stock options and stock warrants varies from \$0.625 to \$5.00 per share. The Company's convertible securities have conversion prices that range from \$0.75 to \$2.75, or, in certain cases, are based on a percentage of the market price for the Company's common stock. Assuming that the exercise and conversions are made at the lowest price provided under the terms of their agreements, the maximum number of potentially dilutive securities at September 30, 2001 would include: (1) 7,813,030 common shares issuable upon exercise of stock options, (2) 35,463,099 common shares issuable upon exercise of stock purchase warrants, (3) 1,400,000 common shares issuable upon conversion of senior convertible debt, and (4) 41,332,911 common shares issuable upon conversion of convertible preferred stock. The actual number may be substantially less depending on the market price of the Company's common stock at the time of conversion. None of these shares 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. 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 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 fixed and 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 \$782,000 of its accounts receivable pledged to KBK that remained uncollected as of September 30, 2001 and, accordingly, this amount has been classified as a restricted asset on the balance sheet as of that date. In addition, as of September 30, 2001, the Company's cash balances include \$330,000 representing accounts receivable that had been collected by KBK and were in-transit to the Company but which were potentially subject to being held as collateral by KBK pending collection of uncollected pledged accounts receivable

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

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

### 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 divisions.

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 subsidiaries 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 September 30,		Nine Months Ended September 30,	
	2000	2001	2000	2001
<b>Revenues</b>				
Prevention . . . . .	\$ 371,000	\$1,888,000	\$ 1,825,000	\$ 3,533,000
Response . . . . .	4,537,000	5,373,000	12,218,000	22,666,000
Restoration. . . . .	723,000	1,233,000	3,560,000	3,333,000
	<u>\$ 5,631,000</u>	<u>\$8,494,000</u>	<u>\$17,603,000</u>	<u>\$29,532,000</u>
<b>Cost of Sales and Operating Expenses</b>				
Prevention . . . . .	\$ 208,000	\$1,248,000	\$ 1,426,000	\$ 2,166,000
Response . . . . .	4,185,000	4,006,000	10,040,000	15,988,000
Restoration. . . . .	1,580,000	1,598,000	5,203,000	4,044,000
	<u>\$ 5,973,000</u>	<u>\$6,852,000</u>	<u>\$16,669,000</u>	<u>\$22,198,000</u>
<b>Selling, General and Administrative Expenses (1)</b>				
Prevention . . . . .	\$ 182,000	\$ 210,000	\$ 483,000	\$ 400,000
Response . . . . .	1,122,000	547,000	2,133,000	2,590,000
Restoration. . . . .	248,000	133,000	621,000	380,000
	<u>\$ 1,552,000</u>	<u>\$ 890,000</u>	<u>\$ 3,237,000</u>	<u>\$ 3,370,000</u>
<b>Depreciation and Amortization (2)</b>				
Prevention . . . . .	\$ 52,000	\$ 120,000	\$ 205,000	\$ 210,000
Response . . . . .	531,000	306,000	1,375,000	1,140,000
Restoration. . . . .	177,000	93,000	517,000	210,000
	<u>\$ 760,000</u>	<u>\$ 519,000</u>	<u>\$ 2,097,000</u>	<u>\$ 1,560,000</u>
<b>Operating Income (Loss)</b>				
Prevention . . . . .	\$ (258,000)	\$ 310,000	\$ (476,000)	\$ 74,000
Response . . . . .	(2,550,000)	513,000	(2,579,000)	2,940,000
Restoration. . . . .	(1,646,000)	(590,000)	(3,145,000)	(1,300,000)
	<u>\$ (4,454,000)</u>	<u>\$ 233,000</u>	<u>\$ (6,200,000)</u>	<u>\$ 2,394,000</u>

(1) Corporate selling, general and administrative expenses have been allocated pro rata among segments based upon relative revenues.

(2) Corporate depreciation and amortization expenses have been allocated pro rata among segments based upon relative revenues.

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

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2000 WITH THE THREE MONTHS ENDED SEPTEMBER 30, 2001 (UNAUDITED)

Prevention revenues were \$1,888,000 for the three months ended September 30, 2001, compared to \$371,000 for the three months ended September 30, 2000, an increase of \$1,517,000 (409%) in the current period. This increase was

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

primarily the result of a higher activity level in the Venezuelan Safeguard operation during the 2001 quarter and an increase in service fees derived from the "WELLSURE" insurance program.

Response revenues were \$5,373,000 for the three months ended September 30, 2001, compared to \$4,537,000 for the three months ended September 30, 2000, an increase of \$836,000 (18.4%) in the current period. The increase was primarily the result of the Company acting as lead contractor on two critical well control events during the quarter.

Restoration revenues were \$1,233,000 for the three months ended September 30, 2001, compared to \$723,000 for the three months ended September 30, 2000, representing an increase of \$510,000 (70.5%) in the current period. Improving liquidity supported Restoration revenues and the Company's relationships with third party vendors. The Company's ability to expand its services through the addition of third party vendors led to a revenue increase in the "high tech" industrial services market.

### COST OF SALES AND OPERATING EXPENSES

Prevention cost of sales and operating expenses were \$1,248,000 for the three months ended September 30, 2001, compared to \$208,000 for the three months ended September 30, 2000, an increase of \$1,040,000 (500%). The increase is primarily the result of higher activity in the Venezuela Safeguard operation as discussed above.

Response cost of sales and operating expenses were \$4,006,000 for the three months ended September 30, 2001, compared to \$4,185,000 for the three months ended September 30, 2000, a decrease of \$179,000 (4.3%) for the current period. The decrease is the result of decreased activity from a lower utilization of third party subcontractors under the Company's previously described lead

14

contracting role associated with two WELLSURE critical well events and improved operating margins in the Special Services division.

Restoration cost of sales and operating expenses were \$1,598,000 for the three months ended September 30, 2001, compared to \$1,580,000 for the three months ended September 30, 2000, an increase of \$18,000 (1.1%) for the current period. This increase is primarily due to increased third party costs associated with "high tech" industrial services described in the Restoration Revenue discussion above.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses were \$890,000 for the three months ended September 30, 2001 compared to \$1,552,000 for the three months ended September 30, 2000, a decrease of \$662,000 (42.7%) for the current period. This decrease was the result of financing and consulting costs of \$797,000 that were included in the prior year quarter. As previously footnoted on the segmented financial table, Corporate selling, general and administrative expenses have been allocated pro rata among the segments using relative revenue as the basis for allocation.

### DEPRECIATION AND AMORTIZATION

Consolidated depreciation and amortization expenses decreased primarily as a result of the reduction in the depreciable asset base between the current period and the prior period. As previously footnoted on the segmented financial table, Depreciation and Amortization expenses have been allocated pro rata among



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

the segments using relative revenue as the basis for allocation.

### INTEREST AND OTHER EXPENSES

The decrease in other expenses (income) to (\$10,000) for the three months ended September 30, 2001 as compared to \$3,593,000 for the three months ended September 30, 2000 was the result of the restructuring of the majority of the Company's senior and subordinated debt with equity. The quarter ended September 30, 2000 included a charge of \$1,268,000 related to legal settlements and other financial costs.

### INCOME TAX EXPENSE

Income taxes for the three months ended September 30, 2001 are a result of taxable income in the Company's foreign operations.

### COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2000 WITH THE NINE MONTHS ENDED SEPTEMBER 30, 2001 (UNAUDITED)

Prevention revenues were \$3,535,000 for the nine months ended September 30, 2001, compared to \$1,825,000 for the nine months ended September 30, 2000, representing an increase of \$1,710,000 (93.7%) in the current period. This was primarily the result of the successful expansion of this segment through strategic engineering initiatives which include training, contingency planning and well plan reviews for new and existing domestic and foreign customers as well as new revenues associated with the Safeguard and "WELLSURE" programs.

Response revenues were \$22,669,000 for the nine months ended September 30, 2001, compared to \$12,218,000 for the nine months ended September 30, 2000, an increase of \$10,451,000 (85.5%) in the current period. The principal component of the increase was a result of the success of the risk management product "WELLSURE". Under the "WELLSURE" program, the Company acted as lead contractor on five critical well control events during the first nine months of 2001.

Restoration revenues were \$3,339,000 for the nine months ended September 30, 2001, compared to \$3,560,000 for the nine months ended September 30, 2000, representing a decrease of \$221,000 (6.2%) in the current period. The decrease was primarily attributable to \$231,000 in reduced sales at Abasco due to a continuing decline in international direct sales efforts and support.

### COST OF SALES AND OPERATING EXPENSES

Prevention cost of sales and operating expenses were \$2,163,000 for the nine months ended September 30, 2001, compared to \$1,426,000 for the nine months ended September 30, 2000, an increase of \$737,000 (51.7%) in the current period.

15

The increase was due to the reallocation of resources from the Response segment to the Prevention segment due to the large increase in activity in the Prevention segment during this period

Response cost of sales and operating expenses were \$15,987,000 for the nine months ended September 30, 2001, compared to \$10,040,000 for the nine months ended September 30, 2000, an increase of \$5,947,000 (59.2%) in the current period. The increase was a result of increased activity and related third party costs under the Company's previously described lead contracting role associated with five WELLSURE critical well events.

Restoration cost of sales and operating expenses were \$4,043,000 for the nine months ended September 30, 2001, compared to \$5,203,000 for the nine months

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

ended September 30, 2000, a decrease of \$1,160,000 (22.3%) in the current period. This decrease was primarily due to the absence of costs associated with the large international project that occurred during the first nine months of 2000 and reduced operating expenses at Abasco due to the decision to outsource the manufacturing of Abasco products.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses were materially unchanged during the nine months ended September 30, 2001 compared to the prior period. The nine months ended September 30, 2000 included financing and consulting costs of \$797,000, partially offset by additions in administrative and accounting staffing and systems, and in support of business development and sales initiatives. As previously footnoted on the segmented financial table, Corporate selling, general and administrative expenses have been allocated pro rata among the segments using relative revenue as the basis for allocation.

### DEPRECIATION AND AMORTIZATION

Consolidated depreciation and amortization expenses decreased primarily as a result of the reduction in the depreciable asset base between the current period and the prior period. As previously footnoted on the segmented financial table, Depreciation and Amortization expenses have been allocated pro rata among the segments using relative revenue as the basis for allocation.

### INTEREST AND OTHER EXPENSES

The decrease in interest and other expenses to \$707,000 for the nine months ended September 30, 2001 as compared to \$9,652,000 of expense in the prior year period is a result of the restructuring of the majority of the Company's senior and subordinated debt into equity. The nine months ended September 30, 2000 also included a \$1,679,000 non-cash financing charge for an inducement to convert certain preferred stock into common stock, \$942,000 of expenses related to warrants issued to the participation interest and advisory services associated therewith and charges of \$598,000 related to the Comerica debt. Other expense for the prior period also includes approximately \$1,268,000 in legal settlements and other financing related costs.

### INCOME TAX EXPENSE

Income taxes for the nine months ended September 30, 2001 are a result of taxable income in the Company's foreign operations.

### LIQUIDITY AND CAPITAL RESOURCES/INDUSTRY CONDITIONS

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 response work. 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

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

have negatively affected the Company's financial position. In response, commencing in 1999 and continuing into 2001, the Company (a) downsized personnel, (b) improved its working capital, (c) closed and/or consolidated

16

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 nine months 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 before preferred stock dividends 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 address 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 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 September 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

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

Preferred Stock (\$2,600,000 fair value). In addition, \$500,000 is contingently payable upon the Company securing a new credit facility of commercial financing arrangement. 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, through January 2, 2002, to repurchase, at a discount to face value, all of the debt and stock issued to Prudential.

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 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.

17

During the nine months ended September 30, 2001, the Company generated a net cash deficit from operating activities of \$1,403,000 and the Company utilized net cash of \$144,000 in investing activities. Overall, the Company's net cash position decreased by \$882,000 during the period. At September 30, 2001, the Company had a cash balance of \$534,000 (see Part 1, Item 1, Consolidated Statement of Cash Flows).

As of September 30, 2001, the Company's current assets totaled approximately \$10,489,000 and current liabilities were \$10,702,000, resulting in a working capital deficit of approximately \$213,000. The Company's highly liquid current assets, represented by cash of \$534,000 and receivables of \$7,509,000 were collectively \$2,659,000 less than the amount of current liabilities. The Company is actively exploring new sources of financing, including the establishment of new credit facilities and the issuance of debt and/or equity securities. Additionally, the Company continues to pursue methods to expand its business activities and enhance its operating cash flow. However, absent new sources of financing, or if the Company does not significantly improve its operating performance, the Company may not have sufficient funds to meet its current obligations over the next twelve months and could be forced to dispose of additional assets or operations outside of the normal course of business in order to satisfy future liquidity requirements.

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

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

the ability of the Company to continue as a going concern. The accompanying condensed 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.

### FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ from those projected in any forward-looking statements for the reasons detailed in this report. The forward-looking statements contained herein are made as of the date of this report and the Company assumes no obligation to update such forward-looking statements, or to update the reasons why actual results could differ from those projected in such forward-looking statements. Investors should consult the information set forth from time to time in the Company's reports on Forms 10-K, 10-Q and 8-K, and its Annual Report to Stockholders.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, notes and capital leases payable, and debt obligations. The book value of cash and cash equivalents, accounts receivable, accounts payable and short-term notes payable are considered to be representative of fair value because of the short maturity of these instruments.

The Company's debt consists of both fixed-interest and variable-interest rate debt; consequently, the Company's earnings and cash flows, as well as the fair values of its fixed-rate debt instruments, are subject to interest-rate risk. The Company has performed sensitivity analyses to assess the impact of this risk based on a hypothetical ten-percent increase in market interest rates. Market rate volatility is dependent on many factors that are impossible to forecast, and actual interest rate increases could be more severe than the hypothetical ten-percent increase.

The Company estimates that if prevailing market interest rates had been ten percent higher for the three and nine months ended September 30, 2000 and September 30, 2001, and all other factors affecting the Company's debt remained the same, pretax earnings would have been lower by approximately \$92,000, \$122,000, \$4,000 and \$13,000, respectively. With respect to the fair value of the Company's fixed-interest rate debt, if prevailing market interest rates had been ten percent higher at year-end 1998, 1999 and 2000, and all other factors affecting the Company's debt remained the same, the fair value of the Company's fixed-rate debt, as determined on a present-value basis, would have been lower by approximately \$247,000 and \$212,000 at December 31, 2000 and September 30, 2001, respectively. Given the composition of the Company's debt structure, the Company does not, for the most part, actively manage its interest rate risk.

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates to the extent that transactions are not denominated in U.S. dollars. The Company typically denominates its contracts in U.S. dollars to mitigate the exposure to fluctuations in foreign currencies.

### PART II

#### ITEM 1. LEGAL PROCEEDINGS

The Company is involved in or threatened with various legal proceedings

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

from time to time arising in the ordinary course of business. Additionally, the Company's liquidity problems have adversely impacted the Company's ability to pay certain vendors on a timely basis. As a consequence, a number of these vendors filed lawsuits against the Company and some have obtained judgments for the amount of their claims, plus costs. The Company has retained a third party to negotiate settlements of some of these claims and is actively engaged in defending or resolving others. The Company expects that it will be able to resolve these claims in an orderly fashion and does not believe that these suits or judgments or any liabilities resulting from any such current proceedings will have a material adverse effect on its operations or financial position. However, the Company's business, financial performance and prospects could be adversely affected if it is unable to adequately defend, pay or settle its accounts, including as a consequence of efforts to enforce existing or future judgments.

As previously discussed 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 had 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 was paid in full by the Company on August 31, 2001.

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 has been advised by bankruptcy counsel that it does not believe it is 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. To provide security to Comerica Bank for any potential claims by the Chapter 7 trustee, the Company has pledged \$350,000 in the form of a certificate of deposit in favor of Comerica Bank. This amount has been classified as a restricted asset on the balance sheet as of September 30, 2001.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

### ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

### ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

### ITEM 5. OTHER INFORMATION

None

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Document
3.01	- Amended and Restated Certificate of Incorporation (1)
3.02	- Amendment to Certificate of Incorporation (2)
*3.02(a)	- Amendment to Certificate of Incorporation
3.03	- Amended Bylaws (3)
4.01	- Specimen Certificate for the Registrant's Common Stock (4)
4.02	- Certificate of Designation of 10% Junior Redeemable Convertible Preferred Stock (5)
4.03	- Certificate of Designation of Series A Cumulative Senior Preferred Stock (6)
4.04	- Certificate of Designation of Series B Convertible Preferred Stock (7)
4.05	- Certificate of Designation of Series C Cumulative Convertible Junior Preferred Stock (8)
4.06	- Certificate of Designation of Series D Cumulative Junior Preferred Stock (9)
4.07	- Certificate of Designation of Series E Cumulative Senior Preferred Stock
4.08	- Certificate of Designation of Series F Convertible Senior Preferred Stock
4.09	- Certificate of Designation of Series G Cumulative Convertible Preferred Stock
4.10	- Certificate of Designation of Series H Cumulative Convertible Preferred Stock
10.01	- Alliance Agreement between IWC Services, Inc. and Halliburton Energy Services, a division of Halliburton Company (10)
10.02	- Executive Employment Agreement of Larry H. Ramming (11)
10.03	- Executive Employment Agreement of Brian Krause (12)
10.04	- 1997 Incentive Stock Plan (13)
10.05	- Outside Directors' Option Plan (14)
10.06	- Executive Compensation Plan (15)
10.07	- Halliburton Center Sublease (16)
10.08	- Registration Rights Agreement dated July 23, 1998, between Boots & Coots International Well Control, Inc. and The Prudential Insurance Company of America (17)
10.09	- Participation Rights Agreement dated July 23, 1998, by and among Boots & Coots International Well Control, Inc., The Prudential Insurance Company of America and certain stockholders of Boots & Coots International Well Control, Inc. (18)
10.10	- Common Stock Purchase Warrant dated July 23, 1998, issued to The Prudential Insurance Company of America (19)
10.11	- Loan Agreement dated October 28, 1998, between Boots & Coots International Well Control, Inc. and Comerica Bank - Texas (20)
10.12	- Security Agreement dated October 28, 1998, between Boots & Coots International Well Control, Inc. and Comerica Bank - Texas (21)
10.13	- Executive Employment Agreement of Jerry Winchester (22)
10.14	- Executive Employment Agreement of Dewitt Edwards (23)
10.15	- Office Lease for 777 Post Oak (24)
10.16	- Open
10.17	- Open
10.18	- Third Amendment to Loan Agreement dated April 21, 2000 (25)

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

10.19	-	Fourth Amendment to Loan Agreement dated May 31, 2000 (26)
10.20	-	Fifth Amendment to Loan Agreement dated May 31, 2000 (27)
10.21	-	Sixth Amendment to Loan Agreement dated June 15, 2000 (28)
10.22	-	Seventh Amendment to Loan Agreement dated December 29, 2000 (29)
10.23	-	Subordinated Note Restructuring Agreement with The Prudential Insurance Company of America dated December 28, 2000
10.25	-	Preferred Stock and Warrant Purchase Agreement, dated April 15, 1999, with Halliburton Energy Services, Inc. (30)
10.26	-	Letter of Engagement, dated April 10, 2000, with Maroon Bells (31)

20

Exhibit No.		Document
10.27	-	Form of Warrant issued to Specialty Finance Fund I, LLC and to Turner, Volker, Moore (32)
10.28	-	Amended and Restated Purchase and Sale Agreement with National Oil Well, L.P. (33)
21.01	-	List of subsidiaries (34)

\*Filed herewith

- (1) Incorporated herein by reference to exhibit 3.2 of Form 8-K filed August 13, 1997.
- (2) Incorporated herein by reference to exhibit 3.3 of Form 8-K filed August 13, 1997.
- (3) Incorporated herein by reference to exhibit 3.4 of Form 8-K filed August 13, 1997.
- (4) Incorporated herein by reference to exhibit 4.1 of Form 8-K filed August 13, 1997.
- (5) Incorporated herein by reference to exhibit 4.06 of Form 10-QSB filed May 19, 1998.
- (6) Incorporated herein by reference to exhibit 4.07 of Form 10-K filed July 17, 2000.
- (7) Incorporated herein by reference to exhibit 4.08 of Form 10-K filed July 17, 2000.
- (8) Incorporated herein by reference to exhibit 4.09 of Form 10-K filed July 17, 2000.
- (9) Incorporated herein by reference to exhibit 4.10 of Form 10-K filed July 17, 2000.
- (10) Incorporated herein by reference to exhibit 10.1 of Form 8-K filed August 13, 1997.
- (11) Incorporated herein by reference to exhibit 10.33 of Form 10-Q filed August 12, 1999.
- (12) Incorporated herein by reference to exhibit 10.4 of Form 8-K filed August 13, 1997.
- (13) Incorporated herein by reference to exhibit 10.14 of Form 10-KSB filed



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

March 31, 1998.

- (14) Incorporated herein by reference to exhibit 10.15 of Form 10-KSB filed March 31, 1998.
- (15) Incorporated herein by reference to exhibit 10.16 of Form 10-KSB filed March 31, 1998.
- (16) Incorporated herein by reference to exhibit 10.17 of Form 8-K filed March 31, 1998.
- (17) Incorporated herein by reference to exhibit 10.22 of Form 8-K filed August 7, 1998.
- (18) Incorporated herein by reference to exhibit 10.23 of Form 8-K filed August 7, 1998.
- (19) Incorporated herein by reference to exhibit 10.24 of Form 8-K filed August 7, 1998.
- (20) Incorporated herein by reference to exhibit 10.25 of Form 10-Q filed November 16, 1998.
- (21) Incorporated herein by reference to exhibit 10.26 of Form 10-Q filed November 16, 1998.
- (22) Incorporated herein by reference to exhibit 10.29 of Form 10-K filed April 15, 1999.
- (23) Incorporated herein by reference to exhibit 10.30 of Form 10-K filed April 15, 1999.
- (24) Incorporated herein by reference to exhibit 10.31 of Form 10-K filed July 17, 2000.

21

- (25) Incorporated herein by reference to exhibit 10.38 of Form 10-K filed July 17, 2000.
- (26) Incorporated herein by reference to exhibit 10.39 of Form 10-K filed July 17, 2000.
- (27) Incorporated herein by reference to exhibit 10.40 of Form 10-K filed July 17, 2000.
- (28) Incorporated herein by reference to exhibit 10.41 of Form 10-K filed July 17, 2000.
- (29) Incorporated herein by reference to exhibit 99.1 of Form 8-K filed January 12, 2001.
- (30) Incorporated herein by reference to exhibit 10.42 of Form 10-K filed July 17, 2000.
- (31) Incorporated herein by reference to exhibit 10.43 of Form 10-K filed July 17, 2000.
- (32) Incorporated herein by reference to exhibit 10.47 of Form 10-Q filed November 14, 2000.

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

(33) Incorporated herein by reference to exhibit 2 of Form 8-K filed October 10, 2000.

(34) Incorporated herein by reference to exhibit 21.01 of Form 10-K filed April 15, 1999.

(b) Reports on Form 8-K

None

22

SIGNATURES

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

BOOTS & COOTS INTERNATIONAL WELL  
CONTROL, INC.

By: /s/ LARRY H. RAMMING

-----

Larry H. Ramming  
Chief Executive Officer  
(Principal Financial and Accounting Officer)

Date: November 13, 2001

23