

BOOTS & COOTS INTERNATIONAL WELL CONTROL INC
Form 10-Q
November 14, 2003

=====

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 QUARTER ENDED SEPTEMBER 30, 2003

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.)

11615 N. HOUSTON-ROSSLYN
HOUSTON, TEXAS
(Address of principal executive offices)

77086
(Zip Code)

(281) 931-8884
Registrant's telephone number, including area code

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes No

The number of shares of the Registrant's Common Stock, par value \$.00001 per share, outstanding at November 13, 2003, were 27,127,540

=====

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

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

(UNAUDITED)

| | PAGE |
|--|------|
| | ---- |
| Item 1. Financial Statements | 3 |
| Condensed Consolidated Balance Sheets | 3 |
| Condensed Consolidated Statements of Operations | 4 |
| Condensed Consolidated Statements of Stockholders' Equity (Deficit) | 5 |
| Condensed Consolidated Statements of Cash Flows | 6 |
| Notes to Condensed Consolidated Financial Statements | 7-14 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 14 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 23 |
| Item 4. Controls and Procedures | 23 |

PART II
OTHER INFORMATION

| | |
|--|----|
| Item 1. Legal Proceedings | 24 |
| Item 2. Changes in Securities and Use of Proceeds | 24 |
| Item 3. Defaults Upon Senior Securities | 25 |
| Item 4. Submissions of Matters to a Vote of Security Holders | 26 |
| Item 5. Other Information | 26 |
| Item 6. Exhibits and Reports on Form 8-K | 26 |

2

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

| | DECEMBER 31, 2002 | SEPTEMBER 2003 |
|---|----------------------|-------------------|
| | ----- | ----- |
| | | (UNAUDITED) |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 261,000 | 3,231 |
| Receivables - net | 2,868,000 | 10,749 |
| Restricted assets | 69,000 | |
| Assets of discontinued operations | 212,000 | 90 |
| Prepaid expenses and other current assets | 620,000 | 1,551 |
| | ----- | ----- |
| Total current assets | 4,030,000 | 15,621 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT - net | 3,000,000 | 3,561 |
| OTHER ASSETS | 6,000 | 5 |
| | ----- | ----- |
| Total assets | \$ 7,036,000 | \$ 19,187 |
| | ===== | ===== |

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:

| | | |
|--|---------------|--------|
| Short term debt and notes | \$ 15,000,000 | \$ 100 |
| Accounts payable | 2,939,000 | 2,093 |
| Accrued liabilities | 1,897,000 | 5,082 |
| Liabilities of discontinued operations | 1,188,000 | 298 |
| | ----- | ----- |
| Total current liabilities | 21,024,000 | 7,573 |
| | ----- | ----- |

LONG TERM DEBT AND NOTES PAYABLE

| | | |
|-------------------------------------|------------|--------|
| net of current maturities | - | 13,452 |
| | | |
| Total liabilities | 21,024,000 | 21,025 |
| | ----- | ----- |

COMMITMENTS AND CONTINGENCIES -

STOCKHOLDERS' EQUITY (DEFICIT):

| | | |
|---|--------------|-----------|
| Preferred stock (\$.00001 par value, 5,000,000 shares authorized, 331,000 and 53,000 shares issued and outstanding at December 31, 2002 and September 30, 2003, respectively) | - | |
| Common stock (\$.00001 par value, 125,000,000 shares authorized, 11,216,000 and 26,545,000 shares issued and outstanding at December 31, 2002 and September 30, 2003, respectively) | - | |
| Additional paid-in capital | 59,832,000 | 67,084 |
| Accumulated other comprehensive loss | (438,000) | (439) |
| Accumulated deficit | (73,382,000) | (68,483) |
| | ----- | ----- |
| Total stockholders' equity (deficit) | (13,988,000) | (1,838) |
| | ----- | ----- |
| Total liabilities and stockholders' equity (deficit) \$ | 7,036,000 | \$ 19,187 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

| | THREE MONTHS ENDED | | NINE MONTHS |
|---------------------------|--------------------|--------------|--------------|
| | SEPTEMBER 30, | | SEPTEMBER |
| | 2002 | 2003 | 2002 |
| | ----- | ----- | ----- |
| REVENUES | | | |
| Service | \$ 3,464,000 | \$ 8,051,000 | \$11,458,000 |
| Equipment sales | - | - | - |
| | ----- | ----- | ----- |
| Total Revenues | 3,464,000 | 8,051,000 | 11,458,000 |
| COSTS OF SALES | | | |
| Service | 1,502,000 | 3,427,000 | 4,761,000 |
| Equipment sales | - | - | - |

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

| | | | |
|---|-------------|------------|----------------|
| Total Costs of Sales | 1,502,000 | 3,427,000 | 4,761,000 |
| Gross Margin | 1,962,000 | 4,624,000 | 6,697,000 |
| Operating expenses. | 1,108,000 | 1,738,000 | 4,481,000 |
| Selling, general and administrative | 613,000 | 689,000 | 2,026,000 |
| Depreciation and amortization | 315,000 | 262,000 | 889,000 |
| OPERATING INCOME (LOSS) | (74,000) | 1,935,000 | (699,000) |
| INTEREST EXPENSE (INCOME) AND OTHER | (1,132,000) | 1,272,000 | (127,000) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS, before income taxes | 1,058,000 | 663,000 | (572,000) |
| INCOME TAX EXPENSE. | 170,000 | 187,000 | 343,000 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS. | 888,000 | 476,000 | (915,000) |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of income taxes. | 497,000 | 360,000 | (6,690,000) |
| NET INCOME (LOSS) | 1,385,000 | 836,000 | (7,605,000) |
| PREFERRED DIVIDEND REQUIREMENTS & ACCRETIONS | 760,000 | 107,000 | 2,352,000 |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS | \$ 625,000 | \$ 729,000 | \$ (9,957,000) |
| Basic Earnings (Loss) per Common Share: | | | |
| Continuing Operations. | \$ 0.02 | \$ 0.02 | \$ (0.30) |
| Discontinued Operations. | \$ 0.04 | \$ 0.01 | \$ (0.63) |
| Net Income (Loss). | \$ 0.06 | \$ 0.03 | \$ (0.93) |
| Weighted Average Common Shares Outstanding - Basic. | 11,190,000 | 26,232,000 | 10,702,000 |
| Diluted Earnings (Loss) per Common Share: | | | |
| Continuing Operations. | \$ 0.01 | \$ 0.02 | \$ (0.30) |
| Discontinued Operations. | \$ 0.04 | \$ 0.01 | \$ (0.63) |
| Net Income (Loss). | \$ 0.05 | \$ 0.03 | \$ (0.93) |
| Weighted Average Common Shares Outstanding - Diluted. | 11,429,000 | 26,265,000 | 10,702,000 |

See accompanying notes to condensed consolidated financial statements.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
 NINE MONTHS ENDED SEPTEMBER 30, 2003
 (UNAUDITED)

| | PREFERRED STOCK | | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL |
|---|-----------------|--------|--------------|--------|----------------------------------|
| | SHARES | AMOUNT | SHARES | AMOUNT | |
| BALANCES, December 31, 2002 | 331,000 | \$ - | 11,216,000 | \$ - | \$59,832,000 |
| Warrant discount accretion | - | - | - | - | 40,000 |
| Warrants exercised | - | - | 2,178,000 | - | - |
| Common stock options exercised . . . | - | - | 736,000 | - | 663,000 |
| Common stock issued to retire senior debt and related accrued interest | - | - | 1,614,000 | - | 1,598,000 |
| Short swing profit contribution | - | - | - | - | 3,887,000 |
| Preferred stock conversion to common stock | (278,000) | - | 10,801,000 | - | - |
| Preferred stock dividends accrued | - | - | - | - | 1,064,000 |
| Net income | - | - | - | - | - |
| Foreign currency translation | - | - | - | - | - |
| Comprehensive income | - | - | - | - | - |
| BALANCES, September 30, 2003. | 53,000 | \$ - | 26,545,000 | \$ - | \$67,084,000 |
| TOTAL STOCKHOLDERS' EQUITY (DEFICIT) | | | | | |
| BALANCES, December 31, 2002 | \$ (13,988,000) | | | | |
| Warrant discount accretion | - | | | | |
| Warrants exercised | - | | | | |
| Common stock options exercised . . . | 663,000 | | | | |
| Common stock issued to retire senior debt and related accrued interest | 1,598,000 | | | | |
| Short swing profit contribution . . | 3,887,000 | | | | |
| Preferred stock conversion to common stock | - | | | | |
| Preferred stock dividends accrued | - | | | | |
| Net income | 6,003,000 | | | | |
| Foreign currency translation | (1,000) | | | | |
| Comprehensive income | 6,002,000 | | | | |
| BALANCES, September 30, 2003. | \$ (1,838,000) | | | | |

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, | |
|---|------------------------------------|--------------|
| | 2002 | 2003 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (7,605,000) | \$ 6,003,000 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization. | 889,000 | 761,000 |
| Bad debt expense | 103,000 | - |
| Loss on sale of assets | 58,000 | - |
| Equity issued (or retired) for services and settlements. | 42,000 | - |
| Loss on reserve for discontinued operations. | 2,954,000 | - |
| Other non-cash charges | - | 1,664,000 |
| Net cash provided by (used in) operating activities before changes in operating assets and liabilities: | (3,559,000) | 8,428,000 |
| Receivables. | 653,000 | (7,881,000) |
| Restricted Assets. | 1,265,000 | 69,000 |
| Inventories. | 138,000 | - |
| Prepaid expenses and other current assets. | 189,000 | (931,000) |
| Net assets/liabilities of discontinued operations. | 1,753,000 | (768,000) |
| Deferred financing costs and other assets. | 124,000 | - |
| Accounts payable and accrued liabilities | (1,655,000) | 2,218,000 |
| Net cash provided by (used in) operating activities. | (1,092,000) | 1,135,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Property and equipment additions | (98,000) | (1,790,000) |
| Proceeds from sale of property and equipment | 44,000 | - |
| Net cash used in investing activities. | (54,000) | (1,790,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short swing profit contribution. | - | 3,887,000 |
| Common stock options exercised. | - | 663,000 |
| Proceeds from short term senior debt financing | 1,300,000 | 200,000 |
| Proceeds from pledging activity. | (330,000) | - |
| Payments of short term senior debt financing. | - | (950,000) |
| Payments on unsecured note payable | - | (115,000) |
| Repayments to pledging arrangements. | - | (59,000) |
| Net cash provided by financing activities. | 970,000 | 3,626,000 |
| Impact of foreign currency on cash | - | (1,000) |
| Net increase (decrease) in cash and cash equivalents | (176,000) | 2,970,000 |

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

| | | |
|---|------------|--------------|
| CASH AND CASH EQUIVALENTS, Beginning of Period. | 303,000 | 261,000 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, End of Period. | \$ 127,000 | \$ 3,231,000 |
| | ===== | ===== |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | |
| Cash paid for interest. | \$ 21,000 | 60,000 |
| Cash paid for income taxes. | 123,000 | 262,000 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Stock and warrant accretions. | 39,000 | 40,000 |
| Preferred stock dividends accrued | 2,313,000 | 1,064,000 |
| Common stock issued for settlements | 49,000 | - |

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, 2003
 (UNAUDITED)

A. FINANCIAL CONDITION

At September 30, 2003, the Company had working capital of \$8,048,000 including a cash balance of \$3,231,000. Though the Company had increased its stockholders' equity by \$12,150,000 for the same period, the Company still retained a stockholders' deficit of \$1,838,000. For the nine months ended September 30, 2003, the Company generated operating income for the period of \$8,568,000 and net cash from operating activities, before changes in working capital, of \$8,428,000. Net cash generated from operating activities, after changes in working capital, was \$1,135,000. The Company received short swing profit contribution proceeds of \$3,887,000 during the period. As a consequence, the Company is benefiting from a significantly improved liquidity position as compared to recent years. These operating and liquidity improvements are primarily a result of activity in the Middle East and, to some extent, Venezuela. Additionally, the Company received substantial benefit from the conversion of \$1,689,000 of senior debt into 1,597,642 shares of common stock during the third quarter of 2003. The Company's short-term liquidity also improved as a consequence of increases in prevention service revenues and certain asset sales. A portion of these proceeds were used to repay \$700,000 of principal plus interest owing under the Company's credit facility with Checkpoint Business, Inc. (See Note F for further discussion). The Company also paid down current maturities and significantly reduced payables owing to Company vendors. The Company applied \$400,000 of the proceeds to legal settlements (See Note G for further discussion).

The Company generates its revenues from prevention and emergency response services. Response services are generally associated with a specific well control emergency or critical "event" whereas prevention services are generally "non-event" related. The frequency and scale of occurrence for response services varies widely and is inherently unpredictable. There is no statistical correlation between common market activity indicators such as commodity pricing, activity forecasts, E&P operating budgets and resulting response revenues. Non-event services provide a more predictable base of revenue volume. Historically the Company has relied upon event driven services as the primary source of its operating revenues, but more recently the Company's strategy has been to achieve greater balance between event and non-event service revenues. While the Company has successfully improved this balance, a significant level of

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

event related services are still a required source of revenues and operating income for the Company.

The Company's reliance on event driven revenues in general, and well control events in particular, has historically impaired the Company's ability to generate predictable operating cash flows. The level of activity in event driven revenues along with the continued growth of non-event revenues have significantly increased the current year's operating income and resulting cash position. During the nine months ended September 30, 2003, there was a significant increase in international demand for the Company's services and equipment, specifically in the Middle East, in connection with events in Iraq.

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 in order to make the condensed consolidated financial statements not be misleading. The unaudited condensed consolidated financial statements and notes thereto and the other financial information contained in this report should be read in conjunction with the audited financial statements and notes in the Company's annual report on Form 10-K for the year ended December 31, 2002, and those reports filed previously with the Securities and Exchange

7

Commission ("SEC"). The results of operations for the three-month and nine month periods ended September 30, 2002 and 2003 are not necessarily indicative of the results to be expected for the full year. On August 19, 2003, the Company's stockholders voted in favor of a one for four reverse stock split, effective October 2, 2003. All of the share numbers and per share numbers have been restated to reflect this reverse split. Certain reclassifications have been made in the prior period consolidated financial statements to conform to current year presentation.

C. STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation granted under its long-term incentive plan using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Stock-based compensation expenses associated with option grants were not recognized in the net income (loss) for the nine month periods ended September 30, 2002 and 2003, as all options granted had exercise prices equal to the market value of the underlying common stock on the dates of grant. The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation:

| THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|--------------------|---------------|-------------------|---------------|
| SEPTEMBER 30, | SEPTEMBER 30, | SEPTEMBER 30, | SEPTEMBER 30, |
| ----- | ----- | ----- | ----- |
| 2002 | 2003 | 2002 | 2003 |
| ----- | ----- | ----- | ----- |

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

| | | | | | | | |
|---|----|---------|----|---------|----|--------------|----|
| Net income (loss) attributable to common stockholders as reported. | \$ | 625,000 | \$ | 729,000 | \$ | (9,957,000) | \$ |
| Less total stock based employee compensation expense determined under fair value method for all awards, net of tax related effects. | | 186,000 | | 64,000 | | 558,000 | |
| | | ----- | | ----- | | ----- | |
| Pro forma net income (loss) attributable to common stockholders | \$ | 439,000 | \$ | 665,000 | \$ | (10,515,000) | \$ |
| | | ----- | | ----- | | ----- | |
| Basic net income (loss) per share | | | | | | | |
| As reported | \$ | 0.06 | \$ | 0.03 | \$ | (0.93) | \$ |
| Pro forma | \$ | 0.04 | \$ | 0.03 | \$ | (0.98) | \$ |
| Diluted net income (loss) per share | | | | | | | |
| As reported | \$ | 0.05 | \$ | 0.03 | \$ | (0.93) | \$ |
| Pro forma | \$ | 0.04 | \$ | 0.03 | \$ | (0.98) | \$ |

D. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations ("SFAS No. 143") which covers all legally enforceable obligations associated with the retirement of tangible long-lived assets and provides the accounting and reporting requirements for such obligations. The Company adopted SFAS No. 143 effective January 1, 2003, as required. The adoption of SFAS No. 143 did not have a material impact on Company's condensed consolidated financial position or results of operations.

In December 2002, the FASB issued Accounting for Stock-Based Compensation ("SFAS No. 148") amending SFAS No. 123, to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. The three methods provided in SFAS No. 148 include (1) the prospective method which is the method currently provided for in SFAS No. 123, (2) the retroactive restatement method which would allow companies to restate all periods presented and (3) the modified prospective method which would allow companies to present the recognition provisions of all outstanding stock-based employee compensation instruments as of the beginning of the fiscal year of adoption. In addition, SFAS No. 148 amends the disclosure provisions of SFAS No. 123 to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148 does not amend SFAS No. 123 to require companies to account for their employee stock-based awards using the fair value method. However, the disclosure provisions are required for all companies with stock-based employee

compensation, regardless of whether they utilize the fair method of accounting described in SFAS No. 123 or the intrinsic value method described in APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company does not currently intend to adopt the fair value method of accounting for stock-based compensation, however, it has adopted the disclosure provisions of SFAS No. 148.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN No. 46), which addresses consolidation by business enterprises of variable interest entities. FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient

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

equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not expect to identify any variable interest entities that must be consolidated and thus the Company does not expect the requirements of FIN No. 46 to have a material impact on its financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity," ("SFAS 150") which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 for public companies. The adoption of SFAS No.150 did not have a material impact on Company's condensed consolidated financial position or results of operations.

E. DISCONTINUED OPERATIONS

On June 30, 2002, the Company formalized a plan to sell the assets of its Special Services and Abasco operations. The sales proceeds were approximately \$1,041,000. The operations of these two companies are reflected as discontinued operations on the condensed consolidated statements of operations and as assets and liabilities of discontinued operations on the condensed consolidated balance sheets.

9

The following represents a condensed detail of assets and liabilities for discontinued operations adjusted for write-downs:

| | DECEMBER 31, 2002 | SEPTEMBER 2002 |
|---|----------------------|-------------------|
| | ----- | ----- |
| Receivables - net | \$ 174,000 | \$ 9 |
| Restricted assets | 38,000 | |
| | ----- | ----- |
| Total assets | \$ 212,000 | \$ 9 |
| | ===== | ===== |
| Short term debt and current maturities of long-term debt and notes payable | \$ 32,000 | \$ |
| Accounts payable | 801,000 | 20 |
| Accrued liabilities | 355,000 | 9 |
| | ----- | ----- |
| Total liabilities | \$ 1,188,000 | \$ 29 |
| | ===== | ===== |

Reconciliation of change in net asset value of discontinued operations:

| | |
|---|---------|
| Balance of net liability of discontinued operations at December 31, 2002 | \$ (97) |
|---|---------|

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

| | |
|--|---------|
| Income from discontinued operations | 37 |
| Intercompany transfers | 39 |
| | ----- |
| Balance of net liability of discontinued operations at September 30, 2003 | \$ (20) |
| | ===== |

F. LONG-TERM DEBT AND NOTES PAYABLE

At June 30, 2003, the Company was not in compliance with certain ratio tests for the trailing twelve-month period under its loan agreement with the Prudential Insurance Company of America. Under the Prudential loan agreement, failure to comply with the ratio tests is an event of default and the note holder may, at its option, by notice in writing to the Company, declare all of the Notes to be immediately due and payable together with interest accrued thereon. On July 3, 2003, the Company reached an agreement with Prudential to waive these loan defaults. In connection therewith, the Company issued \$2,658,931 of new subordinated notes to Prudential for accrued and unpaid interest and fees. The Company believes that it will meet the ratio tests in the next twelve to fifteen months. Accordingly, the Company has reclassified \$12,157,000 owing to Prudential from current liability to long term debt on the September 30, 2003 balance sheet. In connection with the July 2003 waiver, the Company has agreed to apply all of its 'Excess Cash', defined as cash and cash equivalents over \$2,000,000, to Prudential obligations. The Company has received a partial waiver on the requirement at September 30, 2003 as a result of the cash and cash equivalents that were being held on September 30, 2003 for anticipated cash settlements of liabilities in the fourth quarter of 2003. The Company will be required to pay \$582,000 to Prudential on or before November 14, 2003.

At June 30, 2003, Specialty Finance's participation interest of \$1,000,000 was outstanding as senior secured debt. The Company had not, at that time, received a waiver from Specialty Finance of defaults under their credit facility. On July 11, 2003, the Company converted this debt and the accrued interest into equity by issuing 1,239,008 shares of common stock.

On April 9, 2002, the Company entered into a loan participation agreement under which it borrowed an additional \$750,000 under its existing Senior Secured Loan Facility with Specialty Finance Fund I, LLC. The effective interest rate of the participation is 11% after taking into account rate adjustment fees. The Company also paid 3% of the borrowed amount in origination fees, paid closing expenses and issued 25,000 shares of common stock to the participation lender at

closing. The participation had an initial maturity of 90 days, which was extended for an additional 90 days at the Company's option. The Company issued an additional 25,000 shares of common stock to the participation lender to extend the maturity date. On October 9, 2002, the loan extension period matured. On November 11, 2003, the Company and its senior lender executed a term sheet extending the term of the loan to 24 months. The annual interest rate under the agreement is 11% and will be paid quarterly.

On May 2, 2002, the Company borrowed \$250,000 under the Senior Secured Loan Facility upon similar terms, except that the Company issued 8,334 shares of common stock to the participating lenders at closing and issued an additional 8,334 shares of common stock to extend the maturity of those notes for an additional 90 days. On October 25, 2002, the loan extension period matured. The note was paid on August 31, 2003.

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

On July 5, 2002, the Company entered into a loan participation agreement under which it borrowed an additional \$100,000 under its existing Senior Secured Loan Facility. The effective interest rate of the participation was 25% after taking into account rate adjustment fees. The Company also paid 3% of the borrowed amount in origination fees, paid closing expenses and issued 32,500 shares of common stock to the participation lender at closing. The participation had a maturity of 90 days. On September 28, 2002, the loan matured. On July 11, 2003, the Company converted this note and the accrued interest into equity by issuing 125,833 shares of common stock.

On July 8, 2002, the Company entered into a loan participation agreement with a certain party under which it borrowed an additional \$200,000 under its existing Senior Secured Loan Facility with Specialty Finance Fund I, LLC. The effective interest rate of the participation was 16% after taking into account rate adjustment fees. The Company also paid 4% of the borrowed amount in origination fees, paid closing expenses and issued 37,500 shares of common stock to the participation lender at closing. The participation had a maturity of 90 days. On October 1, 2002, the loan matured. On July 18, 2003, the Company converted this debt and the accrued interest into equity by issuing 232,800 shares of common stock.

On December 4, 2002, the Company entered into a loan agreement with Checkpoint Business, Inc. ("Checkpoint") providing for short-term working capital up to \$1,000,000. The effective interest rate under the loan agreement was 15% per annum. Checkpoint collateral included substantially all of the assets of the Company, including the stock of the Company's Venezuelan subsidiary. As of December 31, 2002 and March 28, 2003, the Company had borrowed \$500,000 and an additional \$200,000, respectively, under this facility. On March 28, 2003, the Company paid in full the principal balance of \$700,000 and interest outstanding under its loan agreement with Checkpoint. On May 7, 2003, the Company settled Checkpoint's option to purchase its Venezuelan subsidiary and terminated Checkpoint's exclusivity rights in exchange for \$300,000 of cash and \$100,000 in notes maturing in six months. The Company paid the note on October 14, 2003.

G. COMMITMENTS AND CONTINGENCIES

In September 1999, a lawsuit styled Jerry Don Calicutt, Jr., et al., v. Larry H. Ramming, et al., was filed against the Company, certain of its subsidiaries, Larry H. Ramming, Charles Phillips, certain other employees of the Company, and several entities affiliated with Larry H. Ramming in the 269th Judicial District Court, Harris County, Texas. The plaintiffs alleged various causes of action, including fraud, breach of contract, breach of fiduciary duty and other intentional misconduct relating to the acquisition of stock of a corporation by the name of Emergency Resources International, Inc. ("ERI") by a corporation affiliated with Larry H. Ramming and the circumstances relating to the founding of the Company. The Company settled the case on behalf of all Boots & Coots entities and its employees by paying \$500,000, the last installment of which was paid in March 2003. On September 24, 2003, Mr. Ramming and entities affiliated with him filed a cross claim against the Company asserting entitlement to indemnification with respect to the allegations of plaintiffs pursuant to alleged agreements between the Company and of its subsidiaries and on the basis of common law principles. Based upon the allegations made by the plaintiffs against Mr. Ramming and the entities affiliated with him to date, the Company does not believe that it is obligated to indemnify Mr. Ramming or such entities

on the basis of any contractual, bylaw, common law or other obligation. The Company intends to closely monitor developments in the lawsuit and assess its

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

position with respect to such indemnification as circumstances warrant.

On October 17, 2003 a lawsuit styled Gateway Ridgecrest Inc. vs. Boots & Coots International Well Control, Inc. was filed against the Company demanding past due rent, future rent through August 2005, net of anticipated rent received from its current tenants, other costs related to commissions and leasehold improvements and legal costs as a result of the Company abandoning its lease for office space located at 777 Post Oak Blvd., Houston, Texas, in early 2003. The Company intends to defend this lawsuit. The Company has reserved an amount it believes to be sufficient to offset the anticipated cost associated with this lawsuit.

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

H. EARNINGS PER SHARE

Basic income (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the period. The computation of diluted net income (loss) attributable to common shareholders per share reflects the potential dilution that could occur if securities or other contracts to issue common stock that are dilutive to net income attributable to common shareholders were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the Company.

The following table is a reconciliation of the basic and diluted weighted average shares outstanding for the three and nine months ended September 30, 2002 and 2003:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2002 | 2003 | 2002 | 2003 |
| Weighted average common shares outstanding: | | | | |
| Basic: | 11,190,000 | 26,232,000 | 10,702,000 | 20,132,000 |
| Senior convertible debt. | - | - | - | - |
| Convertible preferred stock. | 239,000 | 33,000 | - | 117,000 |
| Stock purchase warrants (1). | - | - | - | - |
| Stock options (2). | - | - | - | - |
| | 11,429,000 | 26,265,000 | 10,702,000 | 20,249,000 |
| Diluted: | 11,429,000 | 26,265,000 | 10,702,000 | 20,249,000 |