

BOOTS & COOTS INTERNATIONAL WELL CONTROL INC  
Form PRER14A  
January 19, 2006

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**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the Securities**  
**Exchange Act of 1934**  
**(Amendment No. 1)**

Filed by the Registrant **T**  
Filed by Party other than the Registrant \*

Check the appropriate box:

**T** Preliminary Proxy Statement  
\* Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
\* Definitive Proxy Statement  
\* Definitive Additional Materials  
\* Soliciting Material under Rule 14a-12

**BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

**T** No fee required.  
\* \$125 per Exchange Act Rules 0-11(c)(1) (ii), 14a-6(i) (1)m 14a-6(i) (2) or  
Item 22(a)(2) of Schedule 14A.  
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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously

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2) Form, Schedule, or Registration

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i

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## Table of Contents

Notice of Annual Meeting of Stockholders	ii
Proxy Statement	1
Summary	3
Information about Us	3
The Annual Meeting of Stockholders and Voting	3
Board of Directors Recommendations to Stockholders	4
Proposal 1: The Transaction	4
Proposal 2: Election of Class II Directors	7
Proposal 3: Amendment to Our Certificate of Incorporation	8
Proposal 4: Amendment to Our 2004 Long-Term Incentive Plan	8
Forward-Looking Statements	9
*Proposal No. 1 - Issuance of Shares in Connection with the Proposed Transaction	10
Boots & Coots International Well Control, Inc. Selected Historical Financial Data	27
Hydraulic Well Control Business of Oil States International, Inc. Selected Historical Financial Data	28
Unaudited Pro Forma Condensed Consolidated Financial Data	39
Security Ownership of Certain Beneficial Owners and Management	45
*Proposal No. 2 - Election of Class II Directors	59
Directors, Executive Officers, Promoters and Control Persons	60
Committees and Board Meetings	61
Audit Committee Report	63
Executive Compensation	66
Board Compensation Committee Report on Executive Compensation	68
Compensation of Directors	69
Performance of Common Stock	70

*Proposal No. 3 - Proposal to Amend Certificate of Incorporation	71
*Proposal No. 4 - Proposal to Amend 2004 Long-Term Incentive Plan	72
Section 16(A) Beneficial Ownership Reporting Compliance	80
Certain Relationships and Related Transactions	80
Stockholder Proposals	81
Materials Incorporated By Reference	81
Where You Can Find More Information	81
Other Matters	81
Index to Combined Financial Statements of Hydraulic Well Control Business of Oil States International, Inc.	F-1
Annex A - Transaction Agreement	A-1
Annex B - Form of Promissory Note	B-1
Annex C - Registration Rights Agreement	C-1
Annex D - Opinion of Financial Advisor	D-1
Exhibit A - Audit Committee Charter	A-1
Exhibit B - Form of Amendment to Certificate of Incorporation	B-1

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**BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.**  
**11615 N. HOUSTON ROSSLYN**  
**HOUSTON, TEXAS 77086**  
\_\_\_\_\_, 2006

Dear Stockholder:

You are cordially invited to attend our annual meeting of stockholders to be held at \_\_:00 a.m., on February \_\_\_\_, 2006, at the Crown Plaza Brookhollow located at 12801 Northwest Freeway, Houston, Texas 77040.

At the annual meeting, you will be asked to consider and vote upon a proposal to approve the issuance of an aggregate of 26,462,137 shares of our common stock in connection with our proposed acquisition of the hydraulic well control business of Oil States International, Inc., pursuant to a Transaction Agreement dated as of November 21, 2005, by and among us, HWC Acquisition, LLC, HWC Merger Corporation, HWC Energy Services, Inc., and Hydraulic Well Control, LLC. In connection with the acquisition, we are also asking you to consider and vote upon an amendment to our certificate of incorporation to renounce certain corporate opportunities, as permitted under the Delaware General Corporation Law. Your approval of both of these proposals are conditions to the consummation of the proposed acquisition. Our board of directors has determined that the transaction is fair to our stockholders and that each of these proposals is in the best interests of our stockholders, and our board of directors recommends that you vote FOR each of these proposals.

In addition to the above, we are seeking your vote on the re-election of E.J. "Jed" DiPaolo and Jerry L. Winchester as Class II directors and on an amendment to our 2004 Long-Term Incentive Plan to increase the number of authorized shares of common stock under the plan from 6,000,000 shares to 8,000,000 shares. Our board of directors has determined that approval of these proposals is in the best interests of our stockholders, and our board of directors recommends that you vote FOR each of these proposals.

Details regarding the matters to be acted upon at the annual meeting appear in the accompanying proxy statement. Please give this material your careful attention.

Whether or not you are able to attend the annual meeting, it is important that your shares be represented and voted. Accordingly, be sure to complete, sign and date the enclosed proxy card and mail it in the envelope provided as soon as possible so that your shares may be represented at the meeting and voted in accordance with your wishes. If you do attend the annual meeting, you may vote in person even if you have previously returned your proxy card.

On behalf of our board of directors and management, thank you for your continued support of Boots & Coots.

Very truly yours,

/s/ K. Kirk Krist

K. Kirk Krist  
Chairman

/s/ Jerry L.

Winchester  
Jerry L. Winchester  
Chief Executive  
Officer

**BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.**  
**11615 N. Houston Rosslyn**  
**Houston, Texas 77086**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**To Be Held February \_\_, 2006**

To the Stockholders of Boots & Coots International Well Control, Inc.:

Our 2005 Annual Meeting of Stockholders will be held on February \_\_, 2006, at \_\_:00 a.m., local time, at the Crown Plaza Brookhollow located at 12801 Northwest Freeway, Houston, Texas 77040, for the following purposes:

- (1) to consider and vote upon a proposal to approve the issuance of an aggregate of 26,462,137 shares, subject to adjustment, of our common stock, par value \$0.00001 per share, pursuant to the Transaction Agreement dated as of November 21, 2005, by and among us, HWC Acquisition, LLC, HWC Merger Corporation, HWC Energy Services, Inc., and Hydraulic Well Control, LLC (the "Transaction");
- (2) to elect two nominees to our board of directors to serve as Class II directors until their successors are duly elected or until their earlier death, resignation, or removal;
- (3) to consider and vote upon a proposal to amend our certificate of incorporation to renounce certain corporate opportunities;
- (4) to consider and vote upon a proposal to amend our 2004 Long-Term Incentive Plan to increase the number of authorized shares of common stock available under the plan from 6,000,000 shares to 8,000,000 shares; and
- (5) to transact such other business as may properly come before the annual meeting or any adjournment(s) or postponement(s) thereof.

It is a condition of the closing of the Transaction that our stockholders approve proposals 1 and 3. The close of business on January 23, 2006 was fixed as the record date for the determination of stockholders entitled to receive notice of and to vote at the annual meeting or any adjournment(s) or postponement(s) thereof.

You are cordially invited to attend the annual meeting. Your attention is directed to the attached proxy statement. Whether or not you plan to attend the annual meeting, we ask that you vote as soon as possible. You may vote by promptly completing, signing, dating and returning your proxy card in the enclosed envelope. You may revoke your proxy at any time prior to the annual meeting. If you decide to attend the annual meeting and wish to change your proxy vote, you may do so automatically by voting in person at the annual meeting.

By Order of the Board of Directors,

Brian Keith  
Corporate Secretary

Dated: \_\_\_\_\_, 2006

**WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE AT YOUR EARLIEST CONVENIENCE. IF YOU DO ATTEND THE MEETING IN PERSON, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON. THE PROMPT RETURN OF PROXIES WILL ENSURE A QUORUM AND SAVE THE COMPANY THE EXPENSE OF FURTHER SOLICITATION.**

**BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.  
11615 N. Houston Rosslyn  
Houston, Texas 77086**

**PROXY STATEMENT**

**FOR THE ANNUAL MEETING OF STOCKHOLDERS**

To Be Held February \_\_, 2006, \_\_:00 a.m. Local Time

The enclosed proxy is solicited by our board of directors for use at the annual meeting of stockholders to be held on February \_\_, 2006. Shares of our common stock, par value \$0.00001 per share, Series A preferred stock, par value \$0.00001 per share, and Series C preferred stock, par value \$0.00001 per share, represented in person or by a properly executed proxy will be voted at the meeting.

We will bear the cost of soliciting proxies. In addition to solicitation by mail, solicitation of proxies may be made by personal interview, special letter, telephone or telecopy by any of our officers, directors and employees who will receive no special compensation for these activities. Brokerage firms will be requested to forward proxy materials to beneficial owners of shares registered in their names and will be reimbursed for their expenses. We have also made arrangements with Morrow & Company to assist us in soliciting proxies, and we anticipate costs to be approximately \$30,000, plus reasonable expenses, for these services.

**Proxies**

If you are not able to attend the annual meeting in person, you may vote by completing the enclosed proxy card and returning it to us. Instructions for voting by mail are included on your proxy card. You are urged to sign and return your proxy card promptly to make certain your shares will be voted at the meeting. Your shares will be voted according to your instructions. If you sign and return your proxy card but do not specify a choice, your shares will be voted as the board of directors has recommended, which is FOR the proposal to approve the issuance of shares of our common stock in connection with our proposed acquisition of the hydraulic well control business of Oil States International, Inc. (the "Transaction"), FOR the election of the two Class II director nominees named in the accompanying form of proxy, FOR the proposal to approve the amendment to our certificate of incorporation to renounce certain corporate opportunities, and FOR the amendment to increase the number of authorized shares under our 2004 Long Term Incentive Plan from 6,000,000 shares to 8,000,000 shares. Although our board of directors is not aware of any other proposals to be presented at the meeting, your proxy authorizes the persons named in the proxy card to vote on your behalf with respect to any other matters brought before the stockholders. The proxy may be revoked at any time before its exercise by sending written notice of revocation to Brian Keith, Corporate Secretary, Boots & Coots International Well Control, Inc., 11615 N. Houston Rosslyn, Houston, Texas 77086, or by signing and delivering a proxy that is dated and received later by mail, or, if you attend the meeting in person, by giving notice of revocation to the inspector of election at the meeting.





## **Voting Procedures and Tabulation**

We will appoint one or more inspectors of election to serve at the annual meeting. The inspector(s) will ascertain the number of shares outstanding and the voting power of each of the shares, determine the shares represented at the meeting and the validity of proxies and ballots, count all votes and ballots, make a written report of the meeting and perform certain other duties as required by law. Each inspector will sign an oath to perform his or her duties in an impartial manner and to the best of his or her abilities.

The inspectors will tabulate the number of votes cast for or withheld as to the vote on the proposal to approve the issuance of shares of our common stock in the Transaction, the election of the two Class II director nominees named in the accompanying form of proxy, the proposal to approve the amendment to our certificate of incorporation to renounce certain corporate opportunities, and the amendment to increase the number of authorized shares under our 2004 Long-Term Incentive Plan from 6,000,000 shares to 8,000,000 shares.

Under Delaware law, our certificate of incorporation, and our bylaws, abstentions, broker non-votes or other limited proxy as to a proposal voted on at the meeting will be counted towards a meeting quorum, but cannot be voted on the proposal and therefore will not be considered a part of the voting power with respect to the proposal. Accordingly, an abstention or broker non-vote will have no effect on the voting on the election of directors, provided a quorum is present, because directors are elected by a plurality of the shares of stock present in person or by proxy at the meeting and entitled to vote. The proposal to amend our certificate of incorporation requires the affirmative vote of a majority of all of our outstanding shares of common and preferred stock, voting together as a single class. As a consequence, an abstention or broker non-vote will have the effect of a vote against this proposal. The approval of a majority of the votes cast at a meeting of stockholders at which a quorum is present is required for the proposals to issue shares of our common stock in connection with the Transaction and to amend our 2004 Long-Term Incentive Plan to increase the shares available under the plan. An abstention or broker non-vote will have no effect on the voting on these matters.

## **Voting Securities**

Only the holders of record of our common stock at the close of business on January 23, 2006, the record date for the meeting, are entitled to vote on the election of directors at the meeting. For matters other than the election of directors, the holders of our preferred stock are entitled to vote together as a single class with the holders of common stock. On the record date, there were 2 \_\_\_\_\_ shares of common stock, 50,000 shares of Series A preferred stock, and 2,800 shares of Series C preferred stock outstanding and entitled to be voted at the meeting. A majority of the shares of common stock, present in person or by proxy, is necessary to constitute a quorum. Each share of common stock and preferred stock is entitled to one vote.

## SUMMARY

This brief summary highlights selected information from this proxy statement. It does not contain all of the information that may be important to you in casting your vote. You should carefully read this entire document and the other documents to which this proxy statement refers you to fully understand the Transaction and the other matters discussed in this proxy statement. See "Where You Can Find More Information" on page 81. Where applicable, items in this summary refer to the page where that subject is discussed in more detail.

### Information About Us

Boots & Coots International Well Control, Inc.  
11615 N. Houston Rosslyn  
Houston, Texas 77086  
(281) 931-8884

We are a Delaware corporation. Our common stock is listed on the American Stock Exchange under the symbol "WEL". We provide a suite of integrated oilfield services centered on the prevention, emergency response and restoration of blowouts and well fires around the world. Our proprietary risk management program, WELLSURE®, combines traditional well control insurance with post-event response as well as preventative services, giving oil and gas operators and insurance underwriters a medium for effective management of well control insurance policies. Our SafeGuard program, developed for regional producers and operators sponsored by us, provides dedicated emergency response services, risk assessment and contingency planning, and continuous training and education in all aspects of critical well management.

### The Annual Meeting of Stockholders and Voting

The annual meeting will be held in Houston, Texas on February \_\_\_\_, 2006 at \_\_\_\_ a.m., Central Time. At the annual meeting, you will be asked:

- (1) to consider and vote upon a proposal to approve the issuance of an aggregate of 26,462,137 shares, subject to adjustment, of our common stock, par value \$0.00001 per share, pursuant to the Transaction Agreement;
- (2) to elect two nominees to our board of directors to serve as Class II directors until their successors are duly elected or until their earlier death, resignation, or removal;
- (3) to consider and vote upon a proposal to amend our certificate of incorporation to renounce certain corporate opportunities;
- (4) to consider and vote upon a proposal to amend our 2004 Long-Term Incentive Plan to increase the number of authorized shares of common stock available under the plan from 6,000,000 shares to 8,000,000 shares; and
- (5) to transact such other business as may properly come before the meeting or any adjournment(s) or postponement(s) thereof.

Holders of our common stock and preferred stock at the close of business on January 23, 2006 are entitled to vote at the annual meeting. On that date, there were 2\_\_\_\_\_ shares of our common stock outstanding and entitled to vote, approximately \_\_\_\_% of which were owned and entitled to be voted by our directors and executive officers and their affiliates. Only shares of our common stock are entitled to vote on the election of directors. For matters other than the election of directors, holders of Series A preferred stock and Series C preferred stock (collectively, the "preferred stock") are entitled to vote together as a single class with the holders of common stock. On January 23,

2006, there were 50,000 shares of Series A preferred stock and 2,800 shares of Series C preferred stock outstanding and entitled to vote at the meeting. None of the shares of preferred stock are owned by our directors and executive officers and their affiliates. You may cast one vote for each share of our common stock or preferred stock you owned on that date.

Approval of the issuance of our common stock in the Transaction and approval of the amendment to our 2004 Long Term Incentive Plan require the affirmative vote of a majority of the votes cast at the meeting. Each of the directors nominated to serve on our board of directors as Class II directors are elected by a plurality of the votes of our stockholders present in person or represented by written proxy at the annual meeting. Approval of the amendment to the certificate of incorporation requires the affirmative vote of holders of a majority of the outstanding shares of our stock entitled to vote.

### **Board of Directors Recommendations to Stockholders**

Our board of directors has determined that the Transaction and the issuance of our common stock in the Transaction is fair to and in the best interests of our stockholders, and recommends that you vote “FOR” the issuance of shares of our common stock in the Transaction. In addition, our board of directors believes that the election of the persons nominated as directors to our board of directors, the amendment to our certificate of incorporation, and the amendment to our 2004 Long-Term Incentive Plan are in the best interests of our stockholders and recommends that you vote “FOR” each of these proposals.

### **Proposal 1: The Transaction**

#### **Our Subsidiary Will Acquire the Hydraulic Well Control Business of Oil States International, Inc. (Page 10)**

On November 21, 2005, we entered into a Transaction Agreement (the “Transaction Agreement”), by and among us, HWC Acquisition, LLC, a Delaware limited liability company and our wholly owned subsidiary (“Merger Sub”), HWC Merger Corporation, a Delaware corporation and wholly owned subsidiary of Merger Sub (“Acquisition Sub”), HWC Energy Services, Inc., a Delaware corporation (“HWC Energy Services”), and Hydraulic Well Control, LLC, a Delaware limited liability company (“HWC LLC”), pursuant to which we have agreed to acquire all of the issued and outstanding capital stock of HWC Limited, a Louisiana corporation (“HWC Limited”), and HWCES International, a Cayman Islands corporation (“HWCES”), and all of the issued and outstanding membership interests in HWC LLC.

HWC Energy Services, Inc., is a Delaware corporation and a subsidiary of Oil States International, Inc., a public company traded on the New York Stock Exchange. Based in Houma, Louisiana, HWC Energy Services is one of the largest hydraulic workover contractors in the world, typically performing more than 200 snubbing and workover jobs each year. With more than 250 highly trained, safety-driven professionals working worldwide, HWC Energy Services operates 29 hydraulic workover units and four “Hot Tap” units throughout the world. In addition to its U.S. operations, HWC Energy Services has international operations based in Algeria, South America, the Middle East, and West Africa. Pursuant to the Transaction Agreement, we will acquire all of the hydraulic well control business of Oil States International from its subsidiary, HWC Energy Services.

The Transaction Agreement is attached to this proxy statement as Annex A. Please read the Transaction Agreement carefully. It is the legal document that governs the Transaction. Subject to satisfaction of other conditions to the Transaction, we anticipate that the closing of the Transaction will occur at month end following the approval of the issuance of our shares common stock by the requisite vote of our stockholders.

At the effective time of the Transaction, we will issue a total of 26,462,137 shares of our common stock and two subordinated promissory notes in the aggregate principal amount of \$15 million, subject to adjustment, to HWC Energy Services. In conjunction with the closing of the Transaction, we have agreed to file a registration statement with the U.S. Securities and Exchange Commission (“SEC”) on Form S-3 within 30 days of the closing to register for resale the shares of common stock we will issue in the Transaction.

### **Background of Transaction (Page 11)**

For a description of the events leading to the approval by our board of directors of the Transaction and the agreements related thereto, see “Proposal 1: The Transaction—Background of the Transaction” below.

### **Fairness Opinion of Howard Frazier Barker Elliott, Inc. to Our Board of Directors (Page 20)**

In connection with the Transaction, we retained Howard Frazier Barker Elliott, Inc. (“HFBE”). In deciding to approve the Transaction Agreement, our board of directors considered the opinion of HFBE, that, based upon and subject to the assumptions made, matters considered, qualifications, and limitations set forth in the written opinion, as of the date of the opinion, the financial consideration to be paid by us in the merger was fair, from a financial point of view, to us.

The full text of the written opinion of HFBE, which sets forth, among other things, the assumptions made, matters considered, qualifications, and limitations on the review undertaken by HFBE in connection with the opinion, is attached to this document as Annex D. HFBE provided its opinion for the use and benefit of our board of directors in connection with its consideration of the Transaction. The HFBE opinion is not a recommendation as to how you should vote or act with respect to any matter relating to the Transaction.

### **Our Board of Directors After the Transaction (Page 11)**

In conjunction with the Transaction, our board of directors may be expanded up to eight members, consisting of the five current members and up to three additional members to be designated by HWC Energy Services, which members shall be reasonably acceptable to us. HWC Energy Services has not yet identified the persons it intends to designate to be appointed to our board of directors.

### **The Transaction is Expected to Occur in the First Quarter of 2006 (Page 47)**

The Transaction will occur after all the conditions to its completion have been satisfied or, if permissible, waived. Currently, we anticipate that the Transaction will occur in the first quarter of 2006. However, we cannot assure you when or if the Transaction will occur. If the Transaction has not been completed on or before April 1, 2006, either we or HWC Energy Services may terminate the Transaction Agreement unless the failure to complete the Transaction by that date is due to a breach of the Transaction Agreement by the party seeking to terminate the Transaction Agreement.

### **Completion of the Transaction is Subject to Customary Conditions (Page 47)**

The completion of the Transaction is subject to a number of customary conditions being met, including the approval by our stockholders of the issuance of our common stock in the Transaction and of the amendment of our certificate of incorporation to renounce certain corporate opportunities.

Where the law permits, a party to the Transaction Agreement could elect to waive a condition to its obligation to complete the Transaction if that condition has not been satisfied. We cannot be certain when (or if) the conditions to the Transaction will be satisfied or waived or that the Transaction will be completed.

**Termination of the Transaction Agreement (Page 56)**

The Transaction Agreement may be terminated and the transactions contemplated therein abandoned at any time prior to the closing of the Transaction in the following manner:

• by mutual written consent of HWC Energy Services and us;

• by either HWC Energy Services or us, if the closing of the Transaction shall not have occurred on or before April 1, 2006, unless such failure to close shall be due to a breach of the Transaction Agreement by the party seeking to terminate the Transaction Agreement;

• if the other party is in breach of its representations, warranties, covenants, obligations, or agreements set forth in the Transaction Agreement, such that the conditions to closing the Transaction would not be satisfied and such breach or untruth is not curable or if curable, is not cured within 30 days after notice thereof has been received by the breaching party;

• by us or HWC Energy Services, if the requisite stockholder approval is not obtained at the annual meeting (including any adjournment or postponement thereof);

• by HWC Energy Services, if our board of directors (i) fails to recommend, or withdraws, modifies or changes in any manner adverse to HWC Energy Services its recommendation of, the Transaction to our stockholders or (ii) resolves to take any such action (provided that our board of directors shall not be entitled to take any such action except (x) in compliance with its fiduciary obligations to our stockholders under applicable law as advised by counsel or (y) in circumstances that would otherwise permit us to terminate the Transaction Agreement; or

• by either HWC Energy Services or us, if a court or other governmental entity of competent jurisdiction issues a final non-appealable order having the effect of permanently enjoining or otherwise prohibiting the Transaction.

In the event of the termination of the Transaction Agreement pursuant one of the conditions listed above by one of the parties, Transaction Agreement shall become void and have no effect, and there shall be no liability under the Transaction Agreement on the part of us, HWC Energy Services, the other parties to the Transaction Agreement. The termination of the Transaction Agreement shall not relieve any party from liability for any breach of the Transaction Agreement.

**The Parties May Amend the Terms of the Transaction and Waive Rights Under the Transaction Agreement (Page 57)**

The parties to the Transaction Agreement may jointly amend the terms of the Transaction Agreement, and either party may waive its right to require the other party to adhere to any of those terms, to the extent legally permissible.

### **Certain Risks Associated with the Transaction (Page 16)**

The proposed Transaction involves risks, including risks related to:

• the integration of the businesses of the acquired companies into our operations;

• the costs of the Transaction;

• failure to complete the Transaction;

• the dilutive effect on the ownership interests and voting power of existing stockholders;

• the influence of Oil States and its affiliates on us and our board of directors following the Transaction; and

• our outstanding long-term indebtedness, which will increase substantially, and our debt-to-equity ratio, which will be negatively affected.

For detailed information regarding these risks, see "Proposal No. 1: The Transaction—Certain Risks Associated with the Transaction" below.

### **Interests of Certain Persons in the Transaction (page 80)**

In considering the recommendation of the board with respect to the Transaction, our stockholders should be aware that Dewitt Edwards, our Senior Vice President—Finance and Administration, has interests in the Transaction that are in addition to the interests of stockholders in general. Pursuant to a consulting agreement we have with Oak Hollow Consulting LLC, a company controlled by Mr. Edwards, that was entered into with us prior to Mr. Edwards' employment with us, upon closing of the Transaction, Oak Hollow Consulting will receive a success fee of \$99,620, an amount equal to 0.25% of the Transaction value of \$39.848 million. Additionally, one of our directors, E.J. "Jed" DiPaolo is a consultant to Growth Capital Partners, L.P., which we engaged to provide investment banking services for the Transaction. Upon the closing of the Transaction, Growth Capital will receive a success fee of \$498,480, which is equal to 1% of the Transaction value and 1% of the amount of our new \$20 million senior debt facility, less \$100,000 in retainers that we have previously paid to Growth Capital. Although Mr. DiPaolo may receive bonuses based upon Growth Capital's profitability and his relative contributions, he has no direct interest in fees that we may pay to Growth Capital in connection with the Transaction.

### **Proposal 2: Election of Class II Directors**

Assuming a quorum is present at the annual meeting, two Class II directors will be elected by a plurality of the votes of the holders of common stock present in person or represented by proxy at the meeting. Abstentions and broker non-votes have no effect on the vote. All duly submitted and unrevoked proxies will be voted for E.J. "Jed" DiPaolo and Jerry L. Winchester, the Class II nominees, except where authorization to so vote is withheld. If any nominee should become unavailable for election for any unforeseen reason, the persons designated as proxies will have full discretion to vote for another person nominated by the board of directors.

Messrs. DiPaolo and Winchester have consented to serve as Class II directors if elected. Messrs. DiPaolo and Winchester are presently directors and have served continuously in that capacity since 2003 and 1998, respectively.

**Proposal 3: Amendment To Our Certificate of Incorporation**

It is a condition to the closing of the Transaction that our stockholders, as permitted under the Delaware General Corporation Law, adopt an amendment to our certificate of incorporation to renounce any interest or expectancy in certain business opportunities. This amendment to our certificate of incorporation will not prohibit us from pursuing any business opportunity to which we have renounced any interest or expectancy and does not apply to all business opportunities. Specifically, the amendment provides that we renounce any interest or expectancy in any business opportunity, transaction or other matter in which Oil States International, Inc., its affiliates, or any officer or director of Oil States who also serves as one of our directors or officers (collectively, the “Oil States Group”) participates or desires to participate in that involves any aspect of the energy equipment or services business industry, except for business opportunities that:

\$ are presented to the Oil States Group solely in such person’s capacity as a director of us or our subsidiaries and with respect to which no other member of the Oil States Group independently receives notice or otherwise identifies the business opportunity; or

\$ are identified by the Oil States Group solely through the disclosure of information by us or on our behalf.

**Proposal 4: Amendment To Our 2004 Long-Term Incentive Plan**

In connection with the Transaction and the issuance of our common stock upon the closing of the Transaction, our board of directors believes it is in the best interest of us and our stockholders to amend our 2004 Long-Term Incentive Plan to increase the aggregate number of shares of common stock (including common stock options) that may be issued under the plan from 6,000,000 shares to 8,000,000 shares. As of November 30, 2005, approximately 1,688,000 shares were available for new grants under the 2004 Plan, and there were approximately 1,036,000 million shares subject to outstanding benefits under these and predecessor plans. We have agreed to issue options covering 895,000 shares of common stock to certain employees of the businesses we are acquiring in the Transaction. Our board believes that the amendment to the 2004 Plan will provide us with sufficient shares for market-competitive grants after giving effect to the Transaction.



## FORWARD-LOOKING STATEMENTS

This proxy statement, including information included or incorporated by reference in this document, contains certain forward-looking statements with respect to our financial condition, results of operations, plans, objectives, intentions, future performance and business and other statements that are not historical facts, as well as certain information relating to the Transaction.

Forward-looking statements preceded by, followed by or include the words “believes,” “anticipates,” “plans,” “predicts,” “expects,” “envisions,” “hopes,” “estimates,” “intends,” “will,” “continue,” “may,” “potential,” “should,” “confident,” “could” expressions.

These forward-looking statements involve certain risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the factors discussed under “Certain Risks Associated with the Transaction” beginning on page 16 of this document, as well as the following factors:

- the possibility that we may be unable to obtain stockholder approvals required for the Transaction;
  - the possibility that problems may arise in successfully integrating the acquired companies and businesses;
  - the possibility that we may incur unexpected costs;
  - the possibility that the businesses may suffer as a result of uncertainty surrounding the Transaction;
  - the possibility that the industry may be subject to future regulatory or legislative actions;
  - competition;
  - the ability of the combined company’s management to execute its plans to meet its goals;
- General economic and industry conditions, whether internationally, nationally or in the regional and local market areas in which we and the acquired companies are doing business, may be less favorable than expected; and
- Other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors may negatively impact our businesses, operations or pricing.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in our reports filed with the SEC. See “Where You Can Find More Information” beginning on page 81 of this document.

Forward-looking statements speak only as of the date of this proxy statement or the date of any document incorporated by reference in this document. All subsequent written and oral forward-looking statements concerning the Transaction or other matters addressed in this proxy statement and attributable to us, HWC Energy Services or the other parties to the Transaction Agreement or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of this proxy statement or to reflect the occurrence of unanticipated events.

## **PROPOSAL 1:**

### **ISSUANCE OF SHARES IN CONNECTION WITH THE PROPOSED TRANSACTION**

The following description of the material information about the Transaction, including the summary of the material terms and provisions of the Transaction Agreement and the descriptions of the opinion of our financial advisor, is qualified in its entirety by reference to the more detailed annexes to this proxy statement. We urge you to read all of the annexes to this proxy statement in their entirety.

The Transaction Agreement has been included as Annex A to provide you with information regarding its terms. It is not intended to provide any other factual information about us. Such information can be found elsewhere in this proxy statement and in the other public filings we make with the SEC, which are available without charge at [www.sec.gov](http://www.sec.gov).

The Transaction Agreement contains representations and warranties the parties made to each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that have been exchanged in connection with signing the Transaction Agreement. While we do not believe that the disclosure schedules contain information securities laws require us to publicly disclose, other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, quantifies, and creates exceptions to the representations and warranties set forth in the attached Transaction Agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified in important part by the underlying disclosure schedules. These disclosure schedules contain information that has been included in our prior public disclosures, as well as potential additional nonpublic information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the Transaction Agreement, which subsequent information may or may not be fully reflected in our public disclosures.

#### **Transaction Structure**

Our board of directors has approved the Transaction Agreement, which provides for (i) our purchase of all of the issued and outstanding shares of capital stock of HWCES from HWC Energy Services for aggregate consideration of 10,584,854 shares of our common stock, subject to adjustment; (ii) the purchase all of the issued and outstanding shares of capital stock of HWC Limited from HWC Energy Services for aggregate consideration of an unsecured senior subordinated promissory note issued by us in the principal amount of \$10 million, bearing interest at a rate of 10% per annum, subject to adjustment; (iii) the merger of Acquisition Sub with and into HWC LLC, which will survive the merger as our wholly owned subsidiary, and our payment to HWC Energy Services of aggregate consideration consisting of 15,877,283 shares of our common stock, subject to adjustment, and an unsecured senior subordinated promissory note in the principal amount of \$5 million, bearing interest at a rate of 10% per annum, subject to adjustment, and (iv) the merger of HWC LLC with and into Merger Sub (the "Surviving Company"), which will survive the merger as our wholly owned subsidiary. We expect to complete the Transaction in the first quarter of 2006.

At the effective time of the Transaction, our board of directors may be expanded by up to three additional members, consisting of one Class I director, one Class II director, and one Class III director, and these vacancies may be filled by designees of HWC Energy Services reasonably acceptable to us. If appointed, the Class I director's term will expire in 2007, the Class II director's term will expire in 2008, and the Class III director's term will expire in 2006. To date, HWC Energy Services has not identified the individuals it intends to designate to serve on our board of directors.

## **Background of the Transaction**

In August 2003, after a significant period devoted to restructuring our business and finances, we announced that we were seeking complementary business acquisitions that would provide us with more predictable revenues and income, broaden our service capabilities and increase our geographic presence. At the time, our board recognized that in conjunction with such an acquisition, it would be necessary for us to restructure our existing senior and senior subordinated debt obligations and eliminate our remaining outstanding preferred securities and associated accumulated dividend obligations. The board also recognized that it would be difficult to locate financing sources willing to provide sufficient financing at acceptable cost to refinance these existing obligations, fund a potential acquisition and to provide ongoing working capital.

In October 2003, we announced the engagement of Growth Capital Partners, L.P., an investment banking firm based in Houston, Texas, to assist us in implementing these strategic objectives.

From January 2004 through March 2005, we assessed a number of potential targets in the pressure control market and negotiated for the acquisition of several of these targets. To maximize the synergies of complementary acquisitions, we focused on potential targets in our core market of pressure control. In each case, we were either unsuccessful in negotiating an acceptable price for the transaction or securing financing on acceptable terms.

In March 2004, Growth Capital contacted Oil States International, Inc., to determine its interest in selling its hydraulic workover business. Oil States' initial response was a request that we prepare an offer based upon information available in their public filings. On March 9, 2004, we submitted an offer letter that provided a valuation methodology that we considered reasonable for the hydraulic well control business, subject to the completion of satisfactory due diligence and other customary conditions. In conjunction with our March 9, 2004 letter, we and Oil States entered into a confidentiality agreement, and we commenced our due diligence investigation. Our management team and Growth Capital also began work to secure a combination of equity and bank financing necessary to finance the potential acquisition and our other obligations.

On May 12, 2004, during a regular meeting of our board of directors, Growth Capital provided an update with regard to the progress of financing alternatives. Confidential information was distributed to over 40 potential investment and financing sources, and we entered into confidentiality agreements and presented additional information to approximately 10 interested investors. Growth Capital presented models showing potential capital structures and financing scenarios.

On August 8, 2004, we announced that we had concluded a restructuring and extension of our senior subordinated debt obligations with The Prudential Insurance Company of America. In conjunction with that restructuring, we also issued an aggregate of 1,829,635 shares of our common stock to convert and satisfy Prudential's outstanding preferred stock, warrants and accrued cash dividends. The restructuring and extension provided us with improved financial flexibility and a more simplified capital structure as we approached capital markets seeking acquisition financing. Specifically, the restructuring eliminated the requirement that we pay Prudential our "excess cash", which was defined as all cash on hand at the end of any fiscal quarter for amounts above a balance of \$2.0 million and extended the maturity date of the loan from December 31, 2005 to December 31, 2009.

On August 12, 2004, during a regular meeting of our board of directors, Growth Capital provided a further update regarding financing of the potential acquisition. Growth Capital indicated that potential financing sources had expressed concerns about the barriers to financing inherent in our existing capital structure. Specifically, they expressed concerns over re-payment of our senior subordinated debt and redemption or restructuring of our Series A preferred stock. Growth Capital again advised our board that the transaction would be extremely complex and, consequently, it believed very few financing sources would be willing to consider the investment.

On November 10, 2004, during a regular meeting of our board of directors, Growth Capital presented a financing proposal from a private equity firm located in New York, NY, which submitted the only firm offer that had been received as a result of Growth Capital's efforts to secure financing. After extensive discussion, we proceeded to negotiate the terms of the proposal.

From November 10, 2004 through February 12, 2005, our management, Growth Capital and the equity firm continued their due diligence on the hydraulic well control business of Oil States. Several meetings were held between all parties in an attempt to negotiate a cash transaction in an amount acceptable to all parties.

On February 12, 2005, a special meeting of our board of directors was held to discuss the status of the proposed acquisition. Growth Capital advised our board that we, the private equity firm and Oil States were unable to reach agreement regarding the pricing and capitalization of the proposed acquisition. Negotiations ended at this time when it became apparent that sufficient financing was not available to satisfy a cash purchase price, our existing obligations and provide working capital for operations post-closing.

On March 16, 2005, during a regular meeting of our board of directors, Growth Capital advised the board that Oil States had contacted them during early March and indicated a willingness to discuss alternative financing structures for the proposed acquisition. The board instructed Growth Capital and management to pursue discussions with the objective of restructuring the transaction so that cash would not be required at closing.

From March 16, 2005 through May 26, 2005, we and Oil States exchanged updated historical financial information and forecasts. Several meetings were held both in person and telephonically between the companies and Growth Capital to discuss updates in the forecasts and business strategies of the business units.

On May 9, 2005, during a regular meeting of our board of directors, Growth Capital and management reported that Oil States was willing to entertain a proposal that contemplated a combination of cash and equity as a component of the purchase price.

On May 26, 2005, a meeting of Oil States' senior personnel, our management and Growth Capital was held to determine if an agreement could be reached on the financial terms of the proposed transaction. During the meeting, Oil States outlined a transaction incorporating the following terms:

§ A purchase price consisting of approximately \$24.0 million in our common stock, or 46% of the combined companies, and a subordinated promissory note in the principal amount of \$15 million, with a four year maturity, 10% per annum interest rate, payable in cash quarterly, and requiring prepayment with any proceeds from future equity offerings.

§ A floor on the stock component of the consideration.

§ Equal representation on our board of directors.

§ Customary registration rights.

§ As a condition to closing, our senior subordinated debt and Series A redeemable preferred stock would be refinanced with proceeds from a new revolving bank credit facility.



As a consequence of this meeting, our management agreed to present the proposal to our board for its consideration.

On June 2, 2005, a telephonic meeting of our board was held with our management and representatives of Growth Capital to discuss the proposal presented by Oil States. After extensive discussion, our board instructed management to proceed with the negotiation of the transaction and preparation of a term sheet consistent with the Oil States' proposal.

On June 16, 2005, a meeting of our board, management, and representatives of Growth Capital was held to discuss the transaction. Management presented a draft term sheet to the board for detailed discussion. After deliberation, the board instructed management to proceed with the negotiations on several points, including the proposed structure of the board of directors, fixing the amount of shares to be issued as consideration for the purchase, working capital adjustments to the purchase price, and certain covenants not to compete.

On June 20, 2005, our management and representatives of Growth Capital met with representatives of Oil States. During the meeting, agreement was reached on substantially all of the open items. It was agreed that the parties should begin preparation of definitive agreements. Additionally, it was agreed that Oil States would have a prominent role in assisting us with securing senior debt financing. The management of each company agreed to submit the revised term sheet to their respective boards for approval.

On June 22, 2005, a special meeting of our board of directors was held to review and approve the revised draft term sheet. Management and representatives of Growth Capital summarized negotiations for the board. At the conclusion of the meeting, our board authorized management to complete due diligence related to the proposed acquisition; to engage Thompson & Knight LLP, as legal counsel, to begin drafting and negotiating definitive agreements; to engage an independent investment banking firm to assess the fairness, from a financial point of view, of the proposed transaction to our stockholders; and to proceed with negotiations for the restructuring of our Series A preferred stock and acquisition financing.

On July 8, 2005, we engaged Howard, Frazier, Barker, Elliott, Inc., to render an opinion to the board as to the fairness, from a financial point of view, of the terms and consideration to be paid by us in the proposed transaction. Shortly thereafter, HFBE began financial due diligence on the proposed transaction.

During July 2005, we and Oil States prepared a financial presentation that was delivered to several lead banking candidates. Over the course of the next several weeks, we and Oil States received and negotiated terms with four primary lenders.

On July 24, 2005, Thompson & Knight distributed the initial draft of the Transaction Agreement to Oil States and its legal counsel.

On August 8, 2005 our board of directors held a regular meeting at which management provided an update on the progress of the documentation and negotiations on the financing necessary to close the transaction.

On August 10, 2005, Oil States notified our management that it reviewed the Transaction with its board of directors at its regular board meeting, and its board had agreed to continue with negotiations and due diligence. At that time, both companies initiated extensive due diligence investigations.

On September 20, 2005, a telephonic meeting of our board of directors was held with our management and representatives of Growth Capital. During the call, management provided an update on the progress of the documentation and related financing. Management presented an analysis of four term sheets received in connection with the senior financing. The board concluded that due diligence and negotiations should continue with Wells Fargo Business Credit.



On September 21, 2005, we executed a Confidential Preliminary Term Sheet with Wells Fargo Business Credit. During the last two weeks of September, Wells Fargo conducted collateral audits of our receivables and assets and those of the hydraulic well control division of Oil States.

From September 21, 2005 through October 12, 2005, the attorneys and management of both parties negotiated definitive documentation and reached substantial agreement on all business terms. Activities during this period were delayed by Hurricanes Katrina and Rita, which interfered with the scheduling and work on an independent audit of Oil States' hydraulic well control business.

On October 12, 2005, a special meeting of our board of directors was held to consider and approve the transaction. Prior to the meeting, our board was provided with a substantially final draft of the transaction documentation and other materials related to the proposed transaction. At the meeting:

§ Our management provided an update on the terms of the proposed transaction as well as the final results of its due diligence review.

§ Representatives of HFBE rendered an oral opinion, subsequently confirmed by delivery of its written opinion dated October 14, 2005 (subsequently updated to November 18, 2005) that as of such date, and based upon and subject to the factors and assumptions set forth therein, the consideration to be paid by us in the proposed transaction was fair, from a financial point of view, to our shareholders.

§ Our management and a representative of Thompson & Knight reviewed the terms of the draft definitive agreements.

§ Our board considered and approved resolutions authorizing our management to finalize the draft definitive agreements upon the terms described and, upon completion thereof, to execute and deliver the definitive agreements on behalf of the company.

For the next several weeks, the parties and their counsel finalized the remaining terms of the definitive documentation relating to the transaction, including the Transaction Agreement and related agreements and schedules, and the commitment letter with Wells Fargo Business Credit.

Also on October 12, 2005, Oil States received approval of the Transaction from its board, subject to finalization of the HWC audit and receipt of a financing commitment by us.

During the week of November 14, 2005, Ernst & Young concluded its audit of the hydraulic well control business of Oil States and delivered its final financial statement opinion to Oil States on November 21, 2005.

On November 14, 2005, Wells Fargo delivered its executed commitment letter.

On November 18, 2005, HFBE provided an updated opinion letter as to the fairness of the transaction, from a financial point of view, to our stockholders.

On November 21, 2005, the parties and their counsel concluded work on the definitive agreements and schedules for the transaction, and the parties executed the Transaction Agreement. On November 21, 2005, after the closing of the American Stock Exchange and the New York Stock Exchange, the parties issued individual press releases announcing the execution of the Transaction Agreement.



**Reasons for the Transaction; Recommendation of the Issuance of Common Stock in the Transaction by Our Board of Directors**

Our board of directors has determined that the Transaction is fair to, and in the best interests of, us and our stockholders. In deciding to approve the Transaction Agreement and to recommend that our stockholders vote to approve the issuance of our common stock in connection with the Transaction, our board of directors consulted with our management and legal and financial advisors and considered a number of material factors, including:

• The Transaction will add a group of core service capabilities critical to our customers, which we expect will allow us to generate additional revenue as a consequence of our ability to offer enhanced service packages;

• The Transaction enhances our position geographically. In addition to complementary locations in Algeria and Venezuela, we will obtain a presence and on-site facilities in Houma, Louisiana, West Africa, Egypt and Dubai. We expect to use this geographical leverage to expand our SafeGuard and risk management services into these markets;

• The Transaction will create a larger company that is expected to have greater financial strength, more liquidity in our common stock, and better access to capital markets, which should provide more financial flexibility;

• The Transaction will increase the depth and breadth of our technical and operational expertise; and

• Howard Frazier Barker Elliott, Inc. presented its analysis and opinion to the effect that, as of November 18, 2005 and based upon and subject to the assumptions made, matters considered, qualifications, and limitations set forth in the written opinion, the financial consideration to be paid by us in the Transaction was fair, from a financial point of view, to us.

This discussion of the information and factors considered by our board of directors in reaching its conclusions and recommendations includes the material factors considered by the board but is not intended to be exhaustive. In view of the wide variety of factors considered by our board of directors in evaluating the Transaction Agreement and the matters contemplated therein, and the complexity of these matters, our board of directors did not find it practicable to, and did not attempt to, quantify, rank or otherwise assign relative weight to those factors. In addition, different members of our board of directors may have given different weight to different factors.

It should be noted that this explanation of the reasoning of our board of directors and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading “Forward-Looking Statements” beginning on page 9 of this proxy statement and “Certain Risks Associated with the Transaction,” below.

Our board of directors determined that the Transaction, the Transaction Agreement and the other matters contemplated in the Transaction Agreement are in the best interests of us and our stockholders. Accordingly, our board of directors approved and adopted the Transaction Agreement and recommends that you vote “FOR” approval of the issuance of our common stock in the Transaction.

### **Certain Risks Associated with the Transaction**

In addition to the other information contained in or incorporated by reference into this document, including, without limitation, our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and Form 10-Q for the quarter ended September 30, 2005, you should carefully consider the following risk factors in deciding whether to vote to approve the issuance of common stock in the Transaction.

#### ***We may not be able to successfully integrate the acquired companies following the Transaction.***

The success of the Transaction depends in large part upon our ability to integrate the organizations, operations, systems and personnel of us and the acquired companies. The integration of previously independent companies is a challenging, time-consuming and costly process. We and the entities comprising the hydraulic well control business of HWC Energy Services have operated and, until the closing of the Transaction, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with suppliers, customers and employees or to achieve the anticipated benefits of the Transaction. In addition, successful integration of the companies will require the dedication of significant management resources, which will temporarily detract attention from the day-to-day business of the companies. If we are not able to integrate our organizations, operations, systems and personnel in a timely and efficient manner, the anticipated benefits of the Transaction may not be realized fully or at all or may take longer to realize than expected.

#### ***The costs of the Transaction could adversely affect our operating results.***

We estimate the total Transaction-related costs to be approximately \$1.45 million, primarily consisting of investment banking, legal and accounting fees and financial printing and other related charges. The foregoing estimate is preliminary and is subject to change. In addition, we will incur certain expenses in connection with the integration of our business and the acquired companies.

#### ***Failure to complete the Transaction or delays in completing the Transaction could negatively impact our stock price and future business and operations.***

If the Transaction is not completed for any reason, we may be subject to a number of material risks, including the following:

• We will not realize the benefits expected from the Transaction, including a potentially enhanced financial and competitive position;

• The price of our common stock may decline to the extent that the current market price of the common stock reflects a market assumption that the Transaction will be completed; and

• Some costs relating to the Transaction, such as certain investment banking expenses and legal and accounting fees, must be paid even if the Transaction is not completed.

In addition, our current and prospective employees may experience uncertainty about their future roles with the companies until after the Transaction is completed or if the Transaction is not completed. This may adversely affect our ability to attract and retain key personnel.

***Our stockholders will experience substantial dilution and Oil States will exert significant influence on the outcome of stockholder voting.***

The consummation of the Transaction will have an immediate dilutive effect on the ownership interests and voting power of our existing stockholders and the future voting power of option holders. Upon closing the Transaction, Oil States and its affiliates will own approximately 45% of our outstanding shares of common stock. As such, Oil States will be in a position to exert significant influence on the outcome of matters requiring a stockholder vote, including the election of directors, adoption of amendments to our certificate of incorporation or bylaws or approval of transactions involving a change of control. The interests of Oil States may differ from those of our stockholders, and Oil States may vote its common stock in a manner that may adversely affect our stockholders.

***Oil States will have the right to appoint up to three members to our board of directors.***

Following the closing of the Transaction, we may expand our board of directors to up to eight members. Under the terms of the Transaction Agreement, Oil State's subsidiary, HWC Energy Services, has the right to designate up to three of the possible eight members. Therefore, the members of the board of directors designated by Oil States may have significant influence over our corporate planning and strategy. This may create conflicts of interest to the extent these directors may also have responsibilities to Oil States. Their duties as directors or officers of Oil States may conflict with their duties as directors of our company regarding business dealings between Oil States and us and other matters. The resolution of these conflicts may not always be in our or our stockholders' best interest.

***The amount of our indebtedness will increase significantly.***

At September 30, 2005, our long-term indebtedness was \$5.9 million, with a debt to equity ratio of approximately 4.9 to 1. As a result of the Transaction, our long-term indebtedness will increase by approximately \$21.5 million, and we estimate that we will then have a debt to equity ratio of approximately 1.7 to 1. See "Unaudited Pro Forma Consolidated Financial Information." Thus, the indebtedness incurred with respect to the Transaction is material in relation to our current level of indebtedness, our ability to service the debt from our operating cash flow and our ability to repay the principal amount of the debt in full at maturity.

***The common stock issued pursuant to the Transaction could result in significant "market overhang" which could restrain or limit increases in the market value of our common stock.***

Upon closing the Transaction we will issue an aggregate 26,462,137 shares of our common stock, representing approximately 45% of our outstanding common stock, to HWC Energy Services. Upon closing the Transaction, we will enter into a registration rights agreement with HWC Energy Services pursuant to which we will file with the SEC and seek to have declared effective a registration statement for the public resale of the shares issued in the Transaction to HWC Energy Services. Sales of a substantial number of shares of our common stock in the market or a perception that such sales could occur may have an adverse affect on the price of our stock and could impair our ability to obtain capital through an offering of equity securities.

***Consummation of the Transaction may substantially limit our ability to use our current net operating loss carryforwards to offset future income for Federal income tax purposes.***

The issuance of our common stock to HWC Energy Services pursuant to the Transaction Agreement and the repurchase of our Series A preferred stock in exchange for common stock will result in the issuance of approximately 49.5% of the voting power of our outstanding capital stock. As a consequence, we may in the future be limited in the amount of our net operating loss carryforwards that we will be able to use on an annual basis to offset our taxable income for Federal income tax purposes. See "Tax Consequences" below. These issuances and any other that may occur in the future may defer to a material extent, and could eliminate altogether, a portion of the future economic

benefit that we would otherwise be entitled to under the current Federal income tax laws as a result of our past operating losses.

## **Risks Related to the Combined Company**

### ***Decreased oil and gas industry expenditure levels will adversely affect our results of operations.***

The hydraulic well control business depends upon the oil and gas industry and its ability and willingness to make expenditures to explore for, develop and produce oil and gas. If these expenditures decline, this business will suffer. The industry's willingness to explore, develop and produce depends largely upon the availability of attractive drilling and workover prospects and the prevailing view of future product prices. Many factors affect the supply and demand for oil and gas and therefore influence product prices, including:

- the level of production;
- the levels of oil and gas inventories;
- the expected cost of developing new reserves;
- the actual cost of finding and producing oil and gas;
- the availability of attractive oil and gas field prospects which may be affected by governmental actions or environmental activists which may restrict drilling;
- the availability of transportation infrastructure and refining capacity;
- depletion rates;
- the level of drilling activity;
- worldwide economic activity including growth in underdeveloped countries;
- national government political requirements, including the ability of the Organization of Petroleum Exporting Companies (OPEC) to set and maintain production levels and prices for oil;
- the impact of armed hostilities involving one or more oil producing nations;
- the cost of developing alternate energy sources;
- environmental regulation; and
- tax policies.

### ***Because the oil and gas industry is cyclical, our operating results may fluctuate.***

Oil prices have been and are expected to remain volatile. This volatility causes oil and gas companies and drilling contractors to change their strategies and expenditure levels. We and the hydraulic well control business of HWC Energy Services have experienced in the past, and may experience in the future, significant fluctuations in operating results based on these changes.

***Disruptions in the political and economic conditions of the foreign countries in which we operate could adversely affect our business.***

We have, and in the Transaction will acquire, operations in various international areas, including parts of Africa, South America and the Middle East. Operations in these areas increase our exposure to risks of war, terrorist attacks, local economic conditions, political disruption, civil disturbance and governmental policies that may:

- disrupt our operations;
- restrict the movement of funds or limit repatriation of profits;
- lead to U.S. government or international sanctions; and
- limit access to markets for periods of time.

***We might be unable to employ a sufficient number of technical personnel.***

We believe that our success will depend upon our ability to employ and retain technical, skilled personnel with the ability to operated hydraulic workover units. In addition, our ability to expand our operations depends in part on our ability to increase our skilled labor force. The demand for skilled workers is high, and the supply is limited. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay or both. If either of these events were to occur, our cost structure could increase and our growth potential could be impaired.

***Hydraulic well control operations are susceptible to seasonal earnings volatility due to adverse weather conditions in regions of operation.***

Hydraulic well control operations are directly affected by seasonal differences in weather in the areas in which the business operates, most notably in the Gulf of Mexico. Operations in the Gulf of Mexico are also affected by weather patterns. Weather conditions in the Gulf Coast region generally result in higher activity in the spring, summer and fall months with the lowest activity in the winter months. In addition, summer and fall drilling activity can be restricted due to hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast. As a result, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters.

**Opinion of Howard Frazier Barker Elliott, Inc. to Our Board of Directors**

Howard Frazier Barker Elliott, Inc. ("HFBE") has advised Boots & Coots' board of directors that, in its opinion, the consideration to be paid by Boots & Coots in the Proposed Transaction is fair, from a financial point of view, to the common stockholders of Boots & Coots. The full text of HFBE's opinion, dated November 18, 2005, which describes the procedures followed, assumptions made, and other matters considered in the opinion, is included in this document as Annex D. We urge you to read the full opinion.

**HFBE'S OPINION IS DIRECTED TO BOOTS & COOTS' BOARD OF DIRECTORS AND ADDRESSES ONLY THE FAIRNESS FROM A FINANCIAL POINT OF VIEW OF THE CONSIDERATION TO BE PAID BY BOOTS & COOTS IN THE PROPOSED TRANSACTION. THE OPINION DOES NOT ADDRESS THE UNDERLYING BUSINESS DECISION TO PROCEED WITH THE PROPOSED TRANSACTION AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY STOCKHOLDER AS TO HOW THE STOCKHOLDER SHOULD VOTE WITH RESPECT TO THE PROPOSED TRANSACTION OR ANY OTHER RELATED MATTER. HFBE'S OPINION IS BASED ON ANALYSES WHICH CONTAIN ESTIMATES AND VALUATION RANGES WHICH ARE NOT NECESSARILY INDICATIVE OF ACTUAL VALUES OR PREDICTIVE OF FUTURE RESULTS OR VALUES.**

In connection with the preparation of its opinion, HFBE made certain reviews, analyses and inquiries as it deemed necessary and appropriate under the circumstances. Among other things, HFBE:

reviewed the draft Transaction Agreement by and among Boots & Coots and HWC Acquisition, Hydraulic Well Control, LLC, and HWC Energy Services, Inc., dated November 16, 2005;

reviewed the Summary of Proposed Terms regarding the Proposed Transaction and consideration, including the subordinated, unsecured promissory note dated July 15, 2005;

reviewed the presentation to the board of directors of Boots & Coots regarding the Proposed Transaction dated June 22, 2005; reviewed the Boots & Coots International Well Control, Inc. Presentation to Investors dated November 2004; reviewed the HWC Management Presentation dated December 2004;

reviewed Securities and Exchange Commission filings for Boots & Coots including 10-K filings for the years ended December 31, 1999 to December 31, 2004 and 10-Q filings for the nine months ended September 30, 2004 and September 30, 2005;

reviewed draft audited financial statements for the Hydraulic Well Control business of Oil States International, Inc., ("HWC") for the years ending December 2002 through December 31, 2004;

reviewed internal financial statements of HWC for the years ending December 31, 2000 and December 31, 2001, and for the nine months ended September 30, 2004 and September 30, 2005;

reviewed projected income statements of Boots & Coots on a standalone basis and pro forma projected income statements of the combined entity after giving effect of the Proposed Transaction, for the years ending December 31, 2005 through 2009, both of which were prepared by Boots & Coots management;

reviewed the Confidential Information Memorandum describing Boots & Coots and HWC prepared by Growth Capital Partners LP dated September 2004;

conducted discussions with members of senior management of Boots & Coots and HWC concerning their respective businesses and prospects; reviewed the historical market prices and trading activity for Boots & Coots' common stock;

analyzed certain financial data for publicly traded companies deemed comparable to HWC;

analyzed the nature and financial terms of certain business combinations involving companies in lines of business HFBE believes to be generally comparable to those of HWC;

reviewed such other matters as HFBE deemed necessary, including an assessment of general economic, market and monetary conditions.

In addition, HFBE held discussions with members of the management of each of Boots & Coots and HWC regarding the businesses, operations, financial condition and prospects of their respective companies. HFBE held discussions with the management of Boots & Coots regarding the financial projections provided by the management of Boots & Coots listed above. HFBE also performed such other financial studies, analyses and investigations as it deemed appropriate.

In arriving at its opinion, HFBE assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information provided to it for the purposes of its opinion. HFBE did not independently verify the furnished information, or undertake an independent appraisal of the assets of Boots & Coots or HWC. HFBE was informed that the financial statements of HWC described above were the only financial statements that were available as of the date of its opinion. HFBE assumed that the financial projections prepared by the management of Boots & Coots represented their best judgment as to the future financial condition and results of operations of Boots & Coots and the combined entity after giving effect of the Proposed Transaction and assumed that the projections had been reasonably prepared based on such current judgment. HFBE assumed that there had been no material change in Boots & Coots' or HWC's financial condition, results of operations, business or prospects since the date of the last financial statements made available to HFBE. HFBE also assumed that the final terms of the Agreement and the Subordinated Note would not vary materially from those set forth in the drafts reviewed by HFBE.

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant quantitative and qualitative methods of financial analyses and the application of those methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. Furthermore, in arriving at its opinion, HFBE did not attribute any particular weight to any analysis or factor considered by us, but rather made qualitative judgments as to the significance and relevance of each analysis or factor. Accordingly, HFBE believes that its analysis must be considered as a whole and that considering any portion of such analysis and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying its opinion. In its analyses, HFBE made numerous assumptions with respect to the industry, general business and economic conditions and other matters, many of which are beyond the control of HWC. Any estimates contained in these analyses are not necessarily indicative of actual values or predictive of future results or values which may be significantly more or less favorable than as set forth therein. In addition, analyses relating to the value of the business do not purport to be appraisals or to reflect the prices at which businesses may actually be sold.



HFBE's opinion was based on economic, market, financial and other conditions as they existed as of the date of the opinion, and on the information made available to HFBE as of the date of the opinion. Although subsequent developments may affect the conclusion reached in the opinion, HFBE has no obligation to update, revise, or reaffirm the opinion. The type and amount of consideration payable in the Proposed Transaction and the decision to enter into the Proposed Transaction was solely determined by the board of directors of Boots & Coots. HFBE's opinion and financial analyses were only one of many factors considered by the board of directors of Boots & Coots in its evaluation of the Proposed Transaction and should not be viewed as determinative of the views of the Boots & Coots board of directors or management with respect to the Proposed Transaction. In addition, HFBE did not express any opinion as to the price or range of prices at which shares of Boots & Coots' common stock would trade at any time following the announcement or consummation of the Proposed Transaction.

The following is a summary of the material financial analyses performed by HFBE in connection with rendering its opinion.

### *Historical Trading Prices*

As of November 17, 2005, Boots & Coots had approximately 29.5 million common shares outstanding with an aggregate equity market capitalization of \$26.6 million. The float comprised approximately 28.8 million shares. HFBE noted that, on November 17, 2005, the closing price per share of Boots & Coots' common stock was \$0.90. HFBE also reviewed the average of the closing prices per share of Boots & Coots common stock, as well as the low and high closing price per share of Boots & Coots common stock, over the 30 trading-day, three-month, six-month and one-year periods ending on November 17, 2005. The results of this review are noted in the table below.

Specified Period	Highest Closing Price Over Specified Period	Average of Closing Prices Over Specified Period	Lowest Closing Price Over Specified Period
10 trading days	\$ 1.10	\$ 0.97	\$ 0.90
30 trading days	1.19	1.08	0.90
Three months	1.42	1.15	0.90
Six months	1.61	1.22	0.90
One year	1.61	1.06	0.74

### *Value of the Consideration*

The consideration offered by Boots & Coots in the Proposed Transaction consisted of 26,462,137 shares of Boots & Coots' common stock and two subordinated notes (the "Subordinated Notes") with a combined aggregate principal amount of \$15.0 million. The aggregate value of the consideration offered by Boots & Coots, based on the November 17, 2005 closing price of Boots & Coots stock of \$0.90 per share was \$38.8 million.

As of November 17, 2005, the closing price of Boots & Coots common stock of \$0.90 per share indicated a market capitalization of \$26.6 million (\$0.90 per share \* 29.5 million shares outstanding). After adding outstanding debt of \$5.9 million and preferred stock of \$7.8 million and deducting cash and equivalents of \$1.7 million as of September 30, 2005, the indicated enterprise value of Boots & Coots was approximately \$38.6 million. This indicated enterprise value of Boots & Coots and the consideration offered for HWC imply an enterprise value sharing ratio of 49.8% to Boots & Coots and 50.2% to HWC.



**Historical Contribution Analysis**

The value of the consideration to be paid by Boots & Coots in the Proposed Transaction and the indicated enterprise values of Boots & Coots show that the Proposed Transaction was essentially viewed as a combination of equals. We considered the historical revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") that Boots & Coots and HWC have generated. This analysis is not an indication of the relative contributions the two companies may make to a combined entity after giving effect for the Proposed Transaction, but merely a summation of the operating results of Boots & Coots and HWC as indicated in the historical financial statements provided. The actual revenues and EBITDA generated by Boots & Coots and HWC for 2004 (based on draft 2004 financial statements for HWC) and the latest twelve months ending September 30, 2005 are presented below.

Measure	Boots & Coots	HWC	Total
2004 revenue	\$24,175,000	\$33,638,000	\$57,813,000
% of the total 2004 revenue	41.9%	58.1%	100.0%
LTM revenue	\$33,184,000	\$37,609,000	\$70,793,000
% of the total LTM revenue	46.9%	53.1%	
2004 EBITDA	\$1,955,000	\$4,620,000	\$6,575,000
% of the total 2004 EBITDA	29.7%	70.3%	100.0%
LTM EBITDA	\$3,783,000	\$7,132,000	\$10,915,000
% of the total LTM EBITDA	34.7%	65.3%	100.0%

The relative contributions of revenue and EBITDA of Boots & Coots and HWC compare favorably for Boots & Coots to the implied enterprise value sharing ratio of 49.8% to Boots & Coots discussed under the *Value of the Consideration* section above.

**Valuation Analysis****Industry Overview**

HFBE noted that oil and gas prices were near historic highs as of the date of its opinion. Factors that supported such high prices included strong worldwide economic growth, high demand in China, supply disruptions in the Middle East, Africa, and Venezuela, slow growth of Russian exports, and production concerns due to recent hurricanes in the Gulf of Mexico. U.S. crude oil inventories were above the upper end of the historical average range, similar to the rest of the industrialized world. World petroleum demand growth during 2005 and 2006 was projected to average approximately 2.5 percent per year, which was a rate that exceeded expected growth in non-OPEC supply and global refinery capacity. Nonetheless, the demand growth was down from 3.4 percent in 2004 due to higher world oil prices and slower than expected Chinese oil demand growth. Natural gas prices were expected to continue to rise into the fourth quarter of 2005 as the winter season was expected to boost natural gas demand. Performance of oilfield service stocks depends largely on the investment levels of exploration and production companies. The activity level of exploration and production companies had been relatively higher from 2003 through 2005 as evidenced by rig counts. The Oil Service Sector Index (the "OSX"), an index of the leading oil field services companies, demonstrated cyclicality in the industry since its debut in 1997. Since reaching a trough in late 2001, the OSX had increased steadily through the third quarter of 2005. As of the date of HFBE's opinion, the OSX was trading near its all time high.



*Market Approach - Analysis of Comparable Publicly Traded Companies*

Using publicly available information, HFBE compared selected financial information for Boots & Coots and the following five selected publicly traded companies in the oilfield service industry:

BJ Services Company

Patterson-UTI Energy, Inc.

RPC, Inc.

Superior Energy Services, Inc.

W-H Energy Services, Inc.

HFBE reviewed enterprise values as multiples of latest twelve month revenues and EBITDA of such guideline companies. To derive the relevant multiples, revenue and EBITDA levels of the guideline companies were compared to their enterprise value (equal to the trading value of equity plus the book value of debt). All multiples were based on closing stock prices as of November 17, 2005.

Multiple	Enterprise Value to Revenue	Enterprise Value to EBITDA
Highest	3.7 x	16.0 x
Mean	3.1 x	11.2 x
Median	3.5 x	9.3 x
25th Percentile	2.7 x	9.2 x
Lowest	1.9 x	8.7 x

For HWC, HFBE applied a range of selected multiples derived from the selected companies of latest twelve month revenues and EBITDA to corresponding financial data of HWC in order to derive implied enterprise value reference ranges for HWC. HFBE did not feel it to be appropriate to derive a value for HWC using equity-based multiples, including earnings, due to the utilization of an intercompany payable by HWC.

The following table summarizes the results of HFBE's analysis of the enterprise value of HWC using the comparable public company method.

**Comparable Public Company Method (1)**

EBITDA for the latest 12 months	\$ 7,132,000	\$ 7,132,000
EBITDA multiple (2)	7.0 x	8.0 x
Indicated value based on latest 12 month EBITDA	\$ 49,924,000	\$ 57,056,000
Revenue for the latest 12 months	\$ 37,609,000	\$ 37,609,000
Revenue multiple (2)	1.2 x	1.5 x
Indicated enterprise value base on latest 12 month revenue	\$ 45,130,800	\$ 56,413,500
<b>Enterprise value of HWC</b>	<b>\$ 45,130,800</b>	<b>to \$ 57,056,000</b>

(1) Equity-based multiples were not utilized due to significant differences in the capitalization of the comparable publicly traded companies and HWC, which was financed through an intercompany payable.

(2) Multiples reflect those near or below the low end of the range of the guideline companies.

No company utilized in the comparable public company analysis is identical to HWC. In evaluating the selected companies, HFBE made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Boots & Coots or HWC, such as the impact of competition on their respective businesses and the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of such companies or the industry or in the financial markets in general.

*Market Approach - Selected Merger and Acquisition Transactions*

HFBE researched various merger and acquisition transactions involving companies that operate in the oil field service industry. HFBE reviewed the purchase prices and implied transaction multiples for the following selected transactions:

Acquiror	Target
• Patina Oil & Gas Corp	• Bravo Natural Resources, Inc.
• Patterson Energy Inc.	• UTI Energy Corp.
• BJ Services Co.	• Osca International
• Pioneer Drilling Co.	• Wolverine Drilling, Inc.
• TETRA Technologies Inc,	• Compresseo, Inc.
• Ensco International	• Chiles Offshore Inc.
• Lincolnshire Management Inc.	• Black Warrior Wireline Corp.
• Superior Energy Services, Inc.	• International Snubbing Services, Inc.
• Santa Fe International Corp.	• Global Marine Inc.
• Patterson-UTI Energy, Inc.	• TMBR Sharp Drilling, Inc.
• Key Energy Services, Inc.	• Q Services, Inc.
• South Texas Drilling & Exploration Inc.	• Mustang Drilling Inc.
• W-H Energy Services, Inc.	• Coil Tubing Services, LLC
• Pride International Inc.	• Marine Drilling Cos Inc.
• Pioneer Drilling Co.	• Allen Drilling Co.
• Unit Corp.	• CDC Drilling Co.

HFBE reviewed enterprise values in the selected transactions as a multiple of latest twelve-month revenues and EBITDA. All multiples for the selected transactions were based on publicly available information at the time of announcement of the particular transaction. HFBE noted that many of the transactions were substantially larger than the Proposed Transaction. HFBE also noted that the most relevant transactions were those involving targets with activities that were not primarily focused on hydraulic well control and contract drilling services. HFBE then applied a range of selected multiples derived from the transactions to the latest twelve month revenues and EBITDA of HWC in order to derive enterprise value ranges for HWC.

The following table summarizes the multiples of all of the selected transactions.

Multiple	Enterprise Value to Revenue	Enterprise Value to EBITDA
Highest	6.6 x	15.4 x
Mean	2.7 x	8.6 x
Median	2.4 x	7.8 x
25th Percentile	1.6 x	5.5 x
Lowest	0.5 x	2.0 x

The following table summarizes the multiples of the transactions involving targets that were not primarily engaged in contract drilling activities.

Multiple	Enterprise Value to Revenue	Enterprise Value to EBITDA
Highest	4.9 x	15.4 x
Mean	2.7 x	10.6 x

Median	2.3 x	9.6 x
25th Percentile	1.7 x	6.7 x
Lowest	1.2 x	5.3 x



The following table summarizes the results of HFBE's analysis of the enterprise value of HWC using the *merger and acquisition method*.

#### Merger and Acquisition Method (1)

EBITDA for the latest 12 months	\$ 7,132,000	\$ 7,132,000
EBITDA multiple (2)	7.0 x	9.0 x
Indicated value based on latest 12 month EBITDA	\$ 49,924,000	\$ 64,188,000
Revenue for the latest 12 months	\$ 37,609,000	\$ 37,609,000
Revenue multiple (2)	1.2 x	1.6 x
Indicated enterprise value base on latest 12 month revenue	\$ 45,130,800	\$ 60,174,400
<b>Enterprise value of HWC</b>	<b>\$ 45,130,800</b>	<b>to \$ 64,188,000</b>

- (1) Equity-based multiples were not utilized due to significant differences in the capitalization of the targets in the comparable merger and acquisition data and HWC, which was financed through an intercompany payable.
- (2) Multiples reflect those below the average or median multiples of the transactions involving targets that were not primarily drilling companies.

No company or transaction utilized in the comparable merger and acquisition transaction analysis is identical to HWC or the Proposed Transaction and, accordingly, HFBE's analyses involved complex considerations and judgments concerning differences in financial and operating characteristics and other factors which would necessarily affect the relative value of HWC versus the companies to which it was compared. In evaluating the comparable transactions, HFBE made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other factors, many of which are beyond the control of Boots & Coots or HWC. HFBE also noted that the merger and acquisition transaction environment changes over time due to macroeconomic factors such as interest rate and equity market fluctuations and microeconomic factors such as industry results and growth expectations. In particular, current and forecasted energy prices significantly affect the merger and acquisition market for oil service companies.

#### *Enterprise Value of HWC*

The implied enterprise value of HWC calculated by HFBE ranged from \$45.1 to \$64.2 million. HFBE noted that the enterprise value of HWC implied by the Proposed Transaction of \$38.8 million was below the range of the enterprise values of HWC indicated by the comparable company analysis and the comparable merger and acquisition transaction analysis of \$45.1 million to \$64.2 million.

HFBE is a recognized business valuation and investment banking firm with expertise in, among other things, valuing businesses and securities and rendering fairness opinions. HFBE is continually engaged in the valuation of businesses and securities in connection with mergers and acquisitions, private placements of equity and debt, employee stock ownership plans and other general corporate purposes. Boots & Coots selected HFBE because of its experience and expertise in performing valuation and fairness opinion analyses. HFBE does not beneficially own nor has it ever beneficially owned any interest in Boots & Coots. Furthermore, HFBE has no agreement or understanding to provide additional services to Boots & Coots beyond the scope of this fairness opinion. HFBE has received a fee of \$40,000 for its services to Boots & Coots. In addition, HFBE has been reimbursed by Boots & Coots, at HFBE's cost, for its reasonable out-of-pocket expenses incurred in connection with providing its services to Boots & Coots, and Boots & Coots has agreed to indemnify HFBE for certain liabilities related to or arising out of the engagement, including liabilities under federal securities laws.

**BOOTS & COOTS INTERNATIONAL WELL CONTROL INC.****SELECTED HISTORICAL FINANCIAL DATA**

Set forth below are highlights from our unaudited consolidated financial data as of and for the nine months ended September 30, 2005 and 2004, and audited consolidated financial data for the years ended December 31, 2002 through 2004. This information should be read together with our consolidated financial statements and related notes included in our quarterly report on Form 10-Q for the quarter ended September 30, 2005 and Annual Report on Form 10-K for the year ended December 31, 2004, which are incorporated by reference in this document and from which this information has been derived.

	For The Years Ended December 31,			Nine Months Ended September 30,	
	2004	2003	2002	2005 (unaudited)	2004 (unaudited)
(in thousands except per share amounts)					
<b>INCOME STATEMENT DATA:</b>					
Revenues	\$ 24,175	\$ 35,935	\$ 14,102	\$ 23,664	\$ 14,655
Operating income (loss)	1,066	10,234	(1,539)	2,741	725
Income (loss) from continuing operations	(290)	6,609	(2,525)	1,341	(817)
Income (loss) from discontinued operations, net of income taxes	42	482	(6,179)	—	(25)
Gain (loss) from sale of discontinued operations, net of income taxes	—	—	(476)	—	—
Net income (loss)	(248)	7,091	(9,180)	1,341	(842)
Net income (loss) attributable to common stockholders	(996)	5,868	(12,292)	692	(1,377))
<b>BASIC INCOME (LOSS) PER COMMON SHARE:</b>					
Continuing operations	\$ (0.04)	\$ 0.25	\$ (0.53)	\$ 0.02	\$ (0.05)
Discontinued operations	\$ —	\$ 0.02	\$ (0.61)	\$ —	\$ —
Net income (loss)	\$ (0.04)	\$ 0.27	\$ (1.14)	\$ 0.02	\$ (0.05)
Weighted average common shares outstanding -Basic	28,142	21,878	10,828	29,497	27,380
<b>DILUTED INCOME (LOSS) PER COMMON SHARE:</b>					
Continuing operations	\$ (0.04)	\$ 0.24	\$ (0.53)	\$ 0.02	\$ (0.05)
Discontinued operations	\$ —	\$ 0.02	\$ (0.61)	\$ —	\$ —
Net income (loss)	\$ (0.04)	\$ 0.26	\$ (1.14)	\$ 0.02	\$ (0.05)
Weighted average common shares outstanding - Diluted	28,142	22,218	10,828	31,376	27,380
		<b>At December 31,</b>		<b>At September 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2005</b>	<b>2004</b>
				<b>(unaudited)</b>	
	<b>(in thousands)</b>				

## BALANCE SHEET DATA:

Total assets	\$	18,393	\$	19,726	\$	7,036	\$	13,656	\$	15,133
Long-term debt and notes payable, including current maturities		7,680		12,398		15,000		6,524		9,692
Working capital (deficit)		2,553		9,375		(16,994)		2,520		3,027
Stockholders' equity (deficit)		1,180		380		(13,988)		2,302		555
Common shares outstanding		29,439		27,300		11,216		29,499		29,439

**HYDRAULIC WELL CONTROL BUSINESS OF OIL STATES INTERNATIONAL, INC.****SELECTED HISTORICAL FINANCIAL DATA**

Set forth below are highlights from the unaudited combined financial data as of and for the nine months ended September 30, 2005 and 2004, and audited combined financial data for the years ended December 31, 2002 through 2004 of the hydraulic well control business of Oil States International, Inc. ("HWC"). This information should be read together with the combined financial statements and related notes for such business included in this proxy statement, from which this information has been derived.

	<b>For The Years Ended December 31,</b>			<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2005</b>	<b>2004</b>
	<b>(unaudited)</b>				
	<b>(in thousands)</b>				
<b>INCOME STATEMENT DATA:</b>					
Revenues	\$ 33,662	\$ 32,525	\$ 28,987	\$ 29,621	\$ 25,698
Operating income	706	2,566	1,301	3,655	1,524
Net income (loss)	(1,526)	(50)	(26)	1,867	(825)

	<b>At December 31,</b>		<b>At September 30, 2005</b>
	<b>2004</b>	<b>2003</b>	<b>(unaudited)</b>
	<b>(in thousands)</b>		
<b>BALANCE SHEET DATA:</b>			
Total assets	\$ 48,690	\$ 45,547	\$ 47,715
Long-term debt and notes payable, including current maturities	20,800	15,030	15,562
Working capital	12,907	7,024	10,465
Stockholders' equity	17,947	19,339	19,942

**Management's Discussion and Analysis of Financial Condition and Results of Operations of HWC**

**Overview**

HWC provides a broad range of workover products and services primarily to customers in the United States, Venezuela, Middle East, North Africa and West Africa. A hydraulic workover unit is a specially designed rig used to vertically move tubulars in and out of a wellbore using hydraulic pressure. These units are used for servicing wells with no pressure at the surface, with modifications these units also have the unique ability of working safely on wells under pressure (snubbing). These features allow snubbing units to be used for underbalanced drilling and workover and also in well control applications. Because of their small size and ability to work on wells under pressure, hydraulic workover/snubbing units offer several advantages over larger workover rigs and conventional drilling rigs, including:

- § reduced mobilization and demobilization costs;
- § reduced cost and time of retrofit to offshore platforms;
- § reduced production shut-in time;
- § reduced deck space requirement; and
- § live well intervention capability for underbalanced drilling situations.

Demand for hydraulic workover service is highly sensitive to current and expected oil and natural gas prices. Demand is cyclical and substantially dependent upon activity levels in the oil and gas industry, particularly our customers' willingness to spend capital on the exploration and development of oil and natural gas reserves. With the majority of HWC workover businesses focused on offshore markets, the daily rental rate of offshore drilling rigs may also have an impact on hydraulic workover rig utilization. Hydraulic workover services are used in operations to produce wells and to restore or increase production. Hydraulic workover services are used during the development, production and/or abandonment stages of the well.

Within the last couple of years, and due to the increasing cost of offshore drilling rigs, HWC clients have become more interested in utilizing hydraulic workover units in re-entry drilling applications. These non-pressure applications are focused on maximizing reservoir drainage via new technologies such as horizontal drilling.

As of December 31, 2004, HWC had 28 hydraulic workover and snubbing units. Of these, 15 were located in the U.S., six were located in the Middle East, five were located in Venezuela and two were located in West Africa. As of September 30, 2005, HWC had 27 hydraulic workover and snubbing units. Of these, 14 were located in the U.S., six were located in the Middle East, five were located in Venezuela, and two were located in West Africa. HWC also has a contract in North Africa in which it maintains and operates two customer-owned snubbing units for a nationalized operator. Utilization of HWC hydraulic workover and snubbing units varies from period to period. As of December 31, 2004, 10 hydraulic workover units were working or under contract, and HWC was actively operating two customer-owned units. As of September 30, 2005, six hydraulic workover units were working or under contract, and HWC was actively operating two customer-owned units. Typically, hydraulic workover units are contracted on a day rate basis. The length of time to complete a job depends on many factors, including the number of wells and the type of workover or pressure control situation involved. Usage of hydraulic workover units may also be affected by the availability of trained personnel. As of December 31, 2004, and September 30, 2005, HWC had sufficient trained personnel to crew and operate 12 to 14 simultaneous jobs or projects.

HWC's three largest customers in workover services in 2004 and 2005 were a large national producing company in Algeria, ChevronTexaco Corporation and TotalFinaElf S.A and for 2003 they were a large national producing company in Algeria, ChevronTexaco Corporation and TotalFinaElf S.A.

The main competitors of HWC are Halliburton Energy Services, Superior Energy Services, and Cudd Pressure Control.

## Results of Operations

The following discussion and analysis should be read in conjunction with the combined financial statements and notes thereto.

Summary combined operating results for the fiscal years ended December 31, 2004, 2003 and 2002 are as follows:

	Years Ended December 31,		
	2004	2003	2002
	(in thousands)		
Revenues	\$ 33,662	\$ 32,525	\$ 28,987
Costs and expenses:			
Service and other costs	26,431	23,828	22,027
Other operating expenses (income)	37	(286)	(296)
Selling, general and administrative	2,570	2,951	2,675
Corporate overhead allocation	224	195	200
Depreciation expense	3,694	3,271	3,080
Operating income	706	2,566	1,301
Interest expense and other (income), net	369	414	268
Income tax expense	1,863	2,202	1,059
Net loss	\$ (1,526)	\$ (50)	\$ (26)

While service and other costs are variable based upon activity, a significant portion of HWC's operating expenses represent a fixed cost base for highly trained personnel, insurance, rent and utilities. Consequently, as activity increases, the incremental operating expenses only increase slightly. HWC seeks to increase its fleet utilization by contracting its services for extended periods of time. This mode of contracting workover services is commonly found in international markets.

### Comparison of the Year ended December 31, 2004 with the Year ended December 31, 2003

#### *Revenues*

Revenues were \$33,662,000 for the year ended December 31, 2004, compared to \$32,525,000 for the year ended December 31, 2003, representing an increase of \$1,137,000, or 3.5%, in the current year. This increase is primarily a result of increases in activity in the U.S. Gulf of Mexico and Algeria. In the U.S., activity increased 27.1% as compared to the prior year and average revenue per day increased 1.8%. In Algeria, HWC operated twelve months under its current contract as compared to eleven months in 2003. These revenue increases were partially offset by a decrease in revenues in the Middle East resulting from project delays experienced in 2004 that were not experienced in 2003.

#### *Service and other costs*

Service and other costs were \$26,431,000 for the year ended December 31, 2004, compared to \$23,828,000 for the year ended December 31, 2003, an increase of \$2,603,000, or 10.9%, in the current year. The increase was primarily due to higher variable costs of \$1,332,000 associated with increased activity in the U.S. Gulf of Mexico, a non-recurring insurance claim in the U.S. totaling \$500,000, and cost increases of \$1,153,000 in Venezuela due to higher activity at lower margins.



***Other operating expense (income)***

Other operating expenses were \$37,000 for the year ended December 31, 2004, compared to other operating income of \$286,000 for the year ended December 31, 2003, a change of \$323,000, or 112.9%, in the current year. The change is principally due to a reduction in foreign currency gains due to the devaluation of the Venezuelan Bolivar totaling \$264,000 for the year ended December 31, 2004 compared to December 31, 2003. In addition, a strengthening of the Euro against the U.S. dollar caused foreign losses of \$201,000 in 2004.

***Selling, general and administrative expenses***

Selling, general and administrative expenses were \$2,570,000 for the year ended December 31, 2004, compared to \$2,951,000 for the year ended December 31, 2003, a decrease of \$381,000, or 12.9%, from the prior year. The decrease was primarily due to a reduction of incentive compensation expense of \$358,000 as compared to the 2003 period.

***Corporate overhead allocation***

Corporate overhead allocation expenses were \$224,000 for the year ended December 31, 2004, compared to \$195,000 for the year ended December 31, 2003, an increase of \$29,000, or 14.9%, from the prior year. The increase is due to higher administrative costs allocated from the HWC parent, Oil States International, Inc.

***Depreciation expense***

Depreciation expense was \$3,694,000 for the year ended December 31, 2004, compared to \$3,271,000 for the year ended December 31, 2003, an increase of \$423,000, or 12.9%, from the prior year. The increase during 2004 was primarily due to depreciation expense associated with assets placed in service for leasehold improvements in Algeria of \$390,000 plus other capital additions.

***Interest expense and other, net***

Interest expense and other, net, decreased by \$45,000 for the year ended December 31, 2004, as compared to the prior year is attributable to several factors as set forth in the table below:

	<b>Years Ended December 31,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(in thousands)</b>	
Related party interest expense (interest on intercompany note from Oil States International Inc. )	\$ 229	\$ 166
Interest expense - Note Payable for Asset Purchase	224	274
Interest Income (cash overnight investments)	(63)	(3)
Other income	(21)	(23)
<b>Total Interest expense and other, net</b>	<b>\$ 369</b>	<b>\$ 414</b>

***Income tax expense***

Income taxes totaled \$1,863,000 on pretax income of \$337,000 in the year ended December 31, 2004. HWC pays income taxes in certain foreign jurisdictions based on a percentage of revenues billed. Primarily because of these "deemed" income taxes, which do not consider the level of HWC's pretax income, HWC's foreign effective tax rates for the years ended December 31, 2004 and 2003 were 588.6% and 62.1%, respectively. In addition, HWC has generated



theoretical net operating losses on the “stand-alone” basis of reporting included herein, which have not be “benefited” in the calculation of the income tax expense. See Note 8 to the combined financial statements of HWC included in this proxy statement.

**Comparison of the Year ended December 31, 2003 with the Year ended December 31, 2002**

31

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***Revenues***

Revenues were \$32,525,000 for the year ended December 31, 2003, compared to \$28,987,000 for the year ended December 31, 2002, representing an increase of \$3,538,000, or 12.2%, in the current year. The revenue increase during 2003 was primarily due to the award of a contract to operate and maintain two customer-owned snubbing (hydraulic) units in Algeria. This was partially offset by decreased activity in Venezuela of 22.7%.

***Service and other costs***

Service and other costs were \$23,828,000 for the year ended December 31, 2003, compared to \$22,027,000 for the year ended December 31, 2002, an increase of \$1,801,000, or 8.2% in the current year. The increase was primarily due to increased personnel costs associated with the Company's Algeria contract and improved personnel utilization in the U.S. operations. For the 2003 period, gross margins increased to 26.7% as compared to 24.0% in the 2002 year end.

***Other operating expenses (income)***

Other operating income was \$286,000 for the year ended December 31, 2003, compared to \$296,000 for the year ended December 31, 2002, a decrease of \$10,000, or 3.4%, in the current year. The decrease in income was a result of net foreign currency translation gains, due principally to the devaluation of the Venezuelan currency in both periods.

***Selling, general and administrative expenses***

Selling, general and administrative expenses were \$2,951,000 for the year ended December 31, 2003, compared to \$2,675,000 for the year ended December 31, 2002, an increase of \$276,000, or 10.3%, from the prior year. The increase was primarily due to increased incentive compensation expense of \$367,000 offset by lower administrative expenses during the 2003 period.

***Corporate overhead allocation***

Corporate overhead allocation expenses were \$195,000 for the year ended December 31, 2003, compared to \$200,000 for the year ended December 31, 2002, a decrease of \$5,000, or 2.5%, from the prior year. The decrease was due to lower administrative cost allocated by the HWC parent, Oil States International, Inc.

***Depreciation expense***

Depreciation expenses were \$3,271,000 for the year ended December 31, 2003, compared to \$3,080,000 for the year ended December 31, 2002, an increase of \$191,000, or 6.2%, from the prior year. The increases are due primarily to depreciation of capital additions.

***Interest expense and other, net***

The increase in interest expense and other, net of \$146,000 for the year ended December 31, 2003, as compared to the prior year is attributable to several factors as set forth in the table below:

**Years Ended December 31,**  
**2003**                      **2002**

(in thousands)

Related party interest expense (interest on intercompany note from Oil States International Inc.)	\$	166	\$	—
Interest expense - Note Payable for asset purchase		274		324
Interest Income		(3)		(1)
Other income		(23)		(55)
Total Interest expense and other, net	\$	414	\$	268

### ***Income tax expense***

Income taxes totaled \$2,202,000 on pretax income of \$2,152,000 in the year ended December 31, 2003. HWC pays income taxes in certain foreign jurisdictions based on a percentage of revenues billed. Primarily because of these “deemed” income taxes, which do not consider the level of HWC’s pretax income, HWC’s foreign effective tax rates for the years ended December 31, 2003 was 62.1%. In addition, HWC has generated theoretical net operating losses on the “stand-alone” basis of reporting included herein, which have not been “benefited” in the calculation of the income tax expenses. See Note 8 to the combined financial statements of HWC included in this proxy statement.

### **Liquidity and Capital Resources/Industry Conditions**

#### ***Liquidity***

At December 31, 2004, HWC had working capital of \$12,907,000 including a cash balance of \$8,710,000. For the year ended December 31, 2004, HWC generated operating income of \$706,000 and net cash provided from operating activities of \$143,000. Net cash used in investing activities was \$1,958,000 and borrowings, net of payments of debt, were a source of cash of \$5,770,000. Management believes HWC has sufficient liquidity to meet its working capital requirements for the next twelve months. HWC has borrowed from Oil States when it has available cash balances as a result of tax planning and foreign earnings repatriation strategies involving cash in foreign and domestic bank accounts on a consolidated basis for Oil States.

HWC generates its revenues from services provided with hydraulic workover units, snubbing units and rental equipment. Hydraulic workover services are the main component of these revenues, with snubbing services being the next largest contributor to revenues, and a small portion of revenues are generated by direct rentals not associated with hydraulic workover or snubbing services. In the case of the large national producer in Algeria, HWC generates revenues by operating and maintaining customer-owned snubbing units. A portion of annual revenues is emergency response related; these revenues vary from year-to-year depending on global emergency situations. Some HWC international contracts are fixed and revenue can easily be forecast from month-to-month or year-to-year, however the majority of revenues (even if under contract) is generated on an as needed basis and varies based on customer need. Our intention is to continue to locate our units in regions that allow us to maximize unit utilization. Historically, during periods of high demand for offshore drilling rigs, we experience a slight delay before the hydraulic workover unit market begins to experience increased demand as producers look for alternative solutions to maximize production. Additionally, when the drilling rig market gets close to maximum utilization, historically emergency response revenues increase.

On December 31, 2004, HWC had \$3,698,000 of cash and \$1,829,000 of accounts receivable attributable to its Venezuelan operations. Of this cash, \$2,787,000 was denominated in U.S. dollars and resided in a U.S. bank. Effective February 5, 2004, the exchange rate changed from 1,600 to 1,920 Bolivars to the U.S. dollar and effective March 1, 2005, the exchange rate changed again from 1,920 to 2,150 Bolivars to the U.S. dollar. HWC translates its

foreign currency to U.S. dollars for financial reporting purposes by using the U.S. dollar as the functional currency. Exchange gains and losses, as well as translation gains and losses, are reported in other operating income and expense. HWC reported a gain of \$216,000 and a gain of \$480,000 for the years ended December 31, 2004 and 2003, respectively. Venezuela is on the U.S. government's "watch list" for highly inflationary economies. The Venezuelan government has made it very difficult for U.S. dollars to be repatriated. HWC is monitoring the situation closely. A majority of the accounts receivable is contracted in U.S. dollars; therefore, risk to currency fluctuation is not considered to be material.

## Disclosure of on and off balance sheet debts and commitments as of December 31, 2004:

Future commitments (000's)					
Description	TOTAL	Less than 1 year	1-3 years	4-5 years	More than 6 years
Long and short term debt and notes payable	—	—	—	—	—
Future minimum lease Payments	\$343,000	\$310,000	\$30,000	\$3,000	—
Total commitments	\$343,000	\$310,000	\$30,000	\$3,000	—

*Credit Facilities/Capital Resources*

HWC's assets have been pledged as collateral under Oil States' bank credit facility. Such collateral pledges will be terminated upon closing of the Transaction.

The "due to Oil States and affiliates" as reflected in the combined balance sheets includes an interest bearing note payable to Oil States in the amount of \$5.2 million and \$5.0 million at December 31, 2004 and 2003, respectively, as well as non-interest bearing payables to Oil States and various affiliates. HWC participates in the centralized cash management system of Oil States, wherein cash receipts are transferred to and cash disbursements are funded by Oil States on a daily basis, except for HWC's foreign operations which are funded as needed. The payable and note payable to Oil States represent the net cash transfers between HWC and Oil States as well as amounts allocated to or paid on behalf of HWC, which primarily includes insurance premiums and claims expense, income taxes, and an allocation of corporate overhead expenses. The entire "due to Oil States and affiliates" balance, including the note payable, has been classified as long-term based on the intent of Oil States not to require payment in the near-term.

The note payable to Oil States has been outstanding since April 2003 and accumulates interest at an annual rate of 4.5%. Interest expense on the note payable to Oil States of \$229,000 and \$166,000 in 2004 and 2003, respectively, is included in the combined statement of operations. The note is payable on demand, at which time all outstanding principal and accrued interest shall be immediately due and payable.

*Quantitative and Qualitative Disclosures about Market Risk*

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

**Comparison of the Nine Months Ended September 30, 2005 with the Nine Months Ended September 30, 2004**

Summary combined operating results for the nine months ended September 30, 2005 and 2004 are as follows (unaudited):

	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(in thousands)</b>	
Revenues	\$ 29,621	\$ 25,698
Costs and expenses:		
Service and other costs	20,615	19,198
Selling, general and administrative expenses	2,373	2,157
Corporate overhead allocation	198	143
Depreciation expense	2,798	2,775
Other operating income	(18)	(99)
	25,966	24,174
Operating income	3,655	1,524
Interest expense and other, net	98	322
Income before income taxes	3,557	1,202
Income tax expense	1,690	2,027
Net income (loss)	\$ 1,867	\$ (825)

**Revenues**

Revenues were \$29,621,000 for the nine months ended September 30, 2005, compared to \$25,698,000 for the nine months ended September 30, 2004, representing an increase of \$3,923,000, or 15.3%. Revenue from operations in the U.S. Gulf of Mexico market increased \$1,479,000, or 18.1%, and revenue from operations in Venezuela increased \$2,421,000, or 50.6%, as compared to the prior year periods. The U.S. Gulf of Mexico activity increased 9.8% and day rates increased 7.4% during the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Venezuela activity increased 54.7% during the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004.

**Service and other costs**

Service and other costs were \$20,615,000 for the nine months ended September 30, 2005, compared to \$19,198,000 for the nine months ended September 30, 2004, an increase of \$1,417,000, or 7.4%. Costs increased compared to the prior year due to increased activity in the U.S. and Venezuela markets. Gross margins increased from 25.3% in the nine months ended September 30, 2004 to 30.4% in the nine months ended September 30, 2005 due to increased activity and pricing improvements.

***Selling general and administrative expenses***

Selling, general and administrative expenses were \$2,373,000 for the nine months ended September 30, 2005, compared to \$2,157,000 for the nine months ended September 30, 2004, an increase of \$216,000, or 10%. Incentive compensation expense was \$338,000 higher during the nine months ended September 30, 2005. This increase was partially offset by a decrease in personnel cost of \$134,000 during the period ended September 30, 2005.

***Corporate overhead allocation***

Corporate overhead allocation expenses totaled \$198,000 for the nine months ended September 30, 2005, compared to \$143,000 for the nine months ended September 30, 2004, an increase of \$55,000, or 38.5%, from the prior period. The increase was due to higher administrative cost allocated by the HWC parent, Oil States International, Inc.

***Depreciation expense***

Depreciation expense increased by \$23,000 in the nine months ended September 30, 2005 compared to the 2004 period, as a result of depreciation on capital additions.

***Interest expense and other, net***

The decrease in interest expense and other, net of \$224,000 for the nine months ended September 30, 2005, as compared to the prior period is attributable to several factors as set forth in the table below (in thousands):

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(in thousands)</b>	
Related party interest expense (interest on intercompany note from Oil States International Inc. )	\$ 178	\$ 170
Interest expense- Note Payable for Asset Purchase	5	185
Interest Income (cash overnight investments)	(70)	(35)
Other income	(15)	2
Total interest expense and other, net	\$ 98	\$ 322

***Income tax expense***

Income taxes for the nine months ended September 30, 2005 and 2004 were \$1,690,000, or 47.5% of pretax income, and \$2,027,000, or 168.6% of pretax income, respectively. HWC pays income taxes in certain foreign jurisdictions based on a percentage of revenues billed. Primarily because of the “deemed” income taxes, which do not consider the level of HWC’s pretax income, HWC’s foreign effective tax rate can significantly influence the overall effective tax rate depending upon the mix of foreign and domestic income. In addition, during the nine months ended September 30, 2005, HWC was able to utilize a portion of its theoretical net operating loss carryforwards, which contributed to a lower effective tax rate.

## *Liquidity and Capital Resources/Industry Conditions*

### **Liquidity**

At September 30, 2005, HWC had working capital of \$10,465,000, including a cash balance of \$4,729,000. HWC ended the quarter with stockholder equity of \$19,942,000. For the nine months ended September 30, 2005, HWC generated operating income of \$3,655,000 and net cash provided from operating activities of \$2,848,000. Net cash used in investing activities was \$1,591,000 and net payments of debt to Oil States and affiliates totaled \$5,238,000.

HWC generates its revenues from services provided with hydraulic workover units, snubbing units and rental equipment. Hydraulic workover services are the main component of these revenues, with snubbing services being the next largest contributor to revenues, and a small portion of revenues are generated by indirect rentals not associated with hydraulic workover or snubbing services. In the case of the large national producer in Algeria HWC generates revenues by operating and maintaining customer-owned snubbing units. A portion of annual revenues is emergency response related; these revenues vary from year-to-year depending on global emergency situations. Some HWC international contracts are fixed and revenue can easily be forecast from month-to-month or year-to-year, however the majority of revenues (even if under contract) is generated on an as needed basis and varies based on customer need. Our intention is to continue to locate our units in regions that allow us to maximize unit utilization. Historically, during periods of high demand for offshore drilling rigs, we experience a slight delay the before hydraulic workover unit market begins to experience increased demand as producers look for alternative solutions to maximize production. Additionally, when the drilling rig market gets close to maximum utilization, historically emergency response revenues increase.

On September 30, 2005, HWC had \$3,320,000 cash and \$3,917,000 accounts receivable attributable to its Venezuelan operations. Of this cash, \$1,962,000 was denominated in U.S. Dollars and resided in a U.S. bank. Effective February 5, 2004, the exchange rate changed from 1,600 to 1,920 Bolivars to the U.S. dollar and effective March 1, 2005, the exchange rate changed again from 1,920 to 2,150 Bolivars to the U.S. dollar. HWC translates its foreign currency to U.S. dollars for financial reporting purposes by using the U.S. dollar as the functional currency. Exchange gains and losses, as well as translation gains and losses, are reported in other operating income and expense. HWC reported a loss of \$15,000 and a gain of \$216,000 during the nine months ended September 30, 2005 and 2004, respectively, to reflect the devaluation of the Bolivar. Venezuela is on the U.S. government's "watch list" for highly inflationary economies. The Venezuelan government has made it very difficult for U.S. dollars to be repatriated. HWC is monitoring the situation closely.



**Disclosure of on and off balance sheet debts and commitments as of September 30, 2005:**

<b>Future commitments (000's)</b>					
<b>Description</b>	<b>TOTAL</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>More than 5 years</b>
Future minimum lease payments	\$233,333	\$200,000	\$30,000	\$3,333	

***Credit Facilities/Capital Resources***

The “due to Oil States and affiliates” as reflected in the combined balance sheets includes an interest bearing note payable to Oil States in the amount of \$5.4 million and \$5.2 million at September 30, 2005 and December 31, 2004, respectively, as well as non-interest bearing payables to Oil States and various affiliates. HWC participates in the centralized cash management system of Oil States, wherein cash receipts are transferred to and cash disbursements are funded by Oil States on a daily basis, except for HWC’s foreign operations which are funded as needed. The payable and note payable to Oil States represent the net cash transfers between HWC and Oil States as well as amounts allocated to or paid on behalf of HWC, which primarily includes insurance premiums and claims expense, income taxes, and an allocation of corporate overhead expenses. The entire “due to Oil States and affiliates” balance, including the note payable, has been classified as long-term based on the intent of Oil States not to require payment in the near term.

The note payable to Oil States has been outstanding since April 2003 and accumulates interest at an annual rate of 4.5%. Interest expense on the note payable to Oil States of \$178,000 and \$170,000 for the nine months ended September 30, 2005 and 2004, respectively, is included in the combined statement of operations. The note is payable on demand, at which time all outstanding principal and accrued interest shall be immediately due and payable.

***Quantitative and Qualitative Disclosures about Market Risk***

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

## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma condensed consolidated financial information reflects our financial condition and results of operations, including per share data and financial ratios, on a pro forma basis after giving effect to:

\$ the consummation of the Transaction, including the issuance of common stock and subordinated promissory notes in connection therewith;

\$ repurchase of all of our outstanding shares of Series A preferred stock and Series C preferred stock;

\$ repayment of all amounts outstanding under our existing credit facilities; and

\$ our new credit facility and the application of proceeds from borrowings thereunder.

The unaudited pro forma condensed consolidated financial data has been prepared as if these transactions had occurred on September 30, 2005 (using currently available fair value information), with respect to balance sheet data, and January 1, 2004, with respect to statement of operations for the year ended December 31, 2004, and January 1, 2005 with respect to the statement of operations for the nine months ended September 30, 2005. The unaudited pro forma condensed consolidated financial data assumes that the transactions will be accounted for using the purchase method of accounting and represents a current estimate based on available information of the combined company's results of operations. The unaudited pro forma condensed consolidated financial data includes adjustments to record the assets and liabilities of the acquired companies at their estimated fair values and is subject to further adjustment as additional information becomes available and as additional analyses are performed.

The Transaction Agreement was announced on November 21, 2005 and provides for us to issue an aggregate of 26,462,137 shares of our common stock and promissory notes in the aggregate principal amount of \$15.0 million to HWC Energy Services as consideration, subject to adjustment under the Transaction Agreement.

In conjunction with the closing of the Transaction, we expect to enter into a new \$20 million credit facility and to borrow approximately \$12.6 million under the new credit facility. The new four-year credit facility consists of (i) a \$10.3 million revolver, availability under which is based on eligible accounts receivable, and (ii) a \$9.7 million term loan which amortizes over 60 months and is secured by our and HWC's equipment. Funds from the credit facility will be used to repay our existing indebtedness of approximately \$5.9 million and to fund the cash required to repurchase all of our outstanding shares of preferred stock, in connection with which we expect to also issue approximately 2,536,000 shares of our common stock.

The unaudited pro forma condensed consolidated financial data should be read together with the historical financial statements, including the notes thereto, of us and the Hydraulic Well Control Business of Oil States International, Inc., included or incorporated by reference in this proxy statement.

The unaudited pro forma condensed consolidated financial data, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of possible revenue enhancements, expense efficiencies, asset dispositions and share repurchases, among other factors that may result as a consequence of the merger and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during these periods.

**BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.  
AND HYDRAULIC WELL CONTROL  
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(in thousands except per share amounts)  
Year Ended December 31, 2004  
(Unaudited)

	HWC	B& C	Pro Forma Adjustments		Pro Forma
REVENUES	\$ 33,662	\$ 24,175	\$ —		\$ 57,837
SERVICE AND OTHER COSTS	26,468	18,850	—		45,318
Selling, general and administrative	2,570	3,370	—		5,940
Corporate overhead allocation	224	—	(224)	J	—
Depreciation and amortization	3,694	889	(251)	K	4,332
OPERATING INCOME	706	1,066	475		2,247
INTEREST EXPENSE AND OTHER, NET	(369)	(864)	(1,468)	A B F G H L M	(2,701)
INCOME (LOSS) FROM CONTINUING OPERATIONS, before income taxes	337	202	(993)		(454)
INCOME TAX EXPENSE	1,863	492	—		2,355
LOSS FROM CONTINUING OPERATIONS	(1,526)	(290)	(993)		(2,809)
INCOME FROM DISCONTINUED OPERATIONS	—	42	—		42
NET LOSS	(1,526)	(248)	(993)		(2,767)
PREFERRED DIVIDEND REQUIREMENTS & ACCRETIONS	—	748	(748)	C D E	—
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (1,526)	\$ (996)	\$ (245)		\$ (2,767)
Basic Loss per Common Share: Net Loss	\$ (0.035)				\$ (0.049)
Weighted Average Common Shares Outstanding - Basic		28,142	28,556	I, D	56,698

Diluted Loss per Common Share:

Net Loss	\$	(0.035)	\$	(0.049)
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Weighted Average Common Shares

Outstanding - Diluted	28,142	28,556	I, D	56,698
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See accompanying notes to pro forma condensed consolidated financial statements.

**BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.  
AND HYDRAULIC WELL CONTROL  
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEETS  
SEPTEMBER 30, 2005  
(in thousands except per share amounts)  
(unaudited)**

ASSETS	HWC (unaudited)	B & C (unaudited)	Pro Forma Adjustments	Reference	Consolidated (unaudited)
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 4,729	\$ 1,666	\$ (4,729)		\$ 1,666
Receivables — net	12,309	6,234	—	T	18,543
Inventories — net	818	—	—		818
Prepaid expenses and other current assets	530	1,678	—		2,208
Total current assets	18,386	9,578	(4,729)		23,235
PROPERTY AND EQUIPMENT — net	19,989	2,450	18,833	M N	41,272
DEFERRED TAX ASSET	—	98	—		98
GOODWILL — net	9,340	—	(7,596)	I, K - T	1,744
OTHER ASSETS	—	1,530	(718)	V X	812
Total assets	\$ 47,715	\$ 13,656	\$ 5,790		\$ 67,161
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Current maturities of long term debt	\$ —	\$ 1,950	\$ (10)	A C J	\$ 1,940
Accrued interest	—	278	(278)	B	—
Accounts payable and accrued liabilities	6,184	4,830	—		11,014
Deferred income tax	443	—	(443)	O	—
Income taxes payable	1,294	—	—		1,294
Total current liabilities	7,921	7,058	(731)		14,248
<b>LONG TERM DEBT AND NOTES PAYABLE, net of current maturities</b>					
Due to affiliates	15,562	—	(15,562)	P	—
Deferred income tax	3,053	—	(3,053)	Q	—
Other liabilities	1,237	—	—		1,237
Accrued interest net of current portion	—	396	(396)	D	—
Total liabilities	27,773	11,354	3,464		42,591
COMMITMENTS AND CONTINGENCIES	—	—	—		—

## STOCKHOLDERS' EQUITY:

Preferred stock (\$.00001 par value, 5,000,000 shares authorized, 53,000 issued and outstanding at September 30, 2005)	—	—	—		—
Common stock (\$.00001 par value, 125,000,000 shares authorized, 55,961,000 shares issued and outstanding at September 30, 2005)	—	—	—		—
				E F G K	
Additional paid-in capital	18,575	71,604	3,912	R	94,091
Deferred compensation	—	(250)	—		(250)
Accumulated other comprehensive loss	—	(1,234)	—		(1,234)
				B D S V	
Accumulated earnings (deficit)	1,367	(67,818)	(1,586)	X	(68,037)
Total stockholders' equity	19,942	2,302	2,326		24,570
Total liabilities and stockholders' equity	\$ 47,715	\$ 13,656	\$ 5,790		\$ 67,161

See accompanying notes to pro forma condensed consolidated financial statements.

**BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.  
AND HYDRAULIC WELL CONTROL  
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(in thousands except per share amounts)  
Nine Months Ended September 30, 2005  
(Unaudited)

	HWC	B& C	Pro Forma Adjustments		Pro Forma
REVENUES	\$ 29,621	\$ 23,664	\$ —		\$ 53,285
SERVICE AND OTHER COSTS	20,597	18,342	—		38,939
Selling, general and administrative	2,373	1,989	—		4,362
Corporate overhead allocation	198	—	(198)	U	—
Depreciation and amortization	2,798	592	(216)	W	3,174
OPERATING INCOME	3,655	2,741	414		6,810
INTEREST EXPENSE AND OTHER, NET	(98)	(523)	(1,149)	A C H I J X Y	(1,770)
INCOME (LOSS) before income taxes	3,557	2,218	(735)		5,040
INCOME TAX EXPENSE	(1,690)	(877)	—		(2,567)
NET INCOME (LOSS)	1,867	1,341	(735)		2,473
PREFERRED DIVIDEND REQUIREMENTS & ACCRETIONS	—	649	(649)	E F G	—
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 1,867	\$ 692	\$ (86)		\$ 2,473
Basic Earnings per Common Share: Net Income	\$ 0.023				\$ 0.042
Weighted Average Common Shares Outstanding - Basic		29,497	28,998	F K	58,495
Diluted Earnings per Common Share: Net Income	\$ 0.022				\$ 0.041
Weighted Average Common Shares Outstanding - Diluted		31,376	28,998	F K	60,374

See accompanying notes to pro forma condensed consolidated financial statements.





## Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

### *Pro Forma Adjustments for the December 31, 2004 Financial Statements*

- A. Repay existing subordinated debt of \$6,000,000 with borrowings under new credit facility and eliminate interest expense of \$330,000 net of troubled debt restructuring credits during 2004.
- B. Repay existing senior debt of \$750,000 with borrowings under new credit facility and eliminate interest expense of \$74,000 during 2004.
- C. Repurchase 50,000 shares of Series A preferred stock with borrowings under new credit facility and eliminate dividend expense of \$615,000 during 2004.
- D. Settle accrued dividends and interest of \$2,104,000 on Series A preferred stock through issuance of 2,104,000 shares of common stock (valued at \$1.00 per share) and eliminate compounded dividends in the amount of \$108,000 during 2004.
- E. Repurchase 2,800 shares of Series C preferred stock with borrowings under new credit facility and eliminate dividend expense of \$25,000 during 2004.
- F. Reflect borrowings of \$3,767,000 under new credit facility at LIBOR plus 2.5%, resulting in an increase in interest expense of \$428,000 during 2004.
- G. Reflect issuance of \$15,000,000 subordinated notes as a component of the purchase price in the Transaction, resulting in an increase in interest expense of \$1,500,000 during 2004.
- H. Borrowings of \$9,700,000 under new term loan at LIBOR plus 3.0%, resulting in an increase in interest expense of \$393,000 during 2004.
- I. Issue 26,462,137 shares of common stock in Transaction.
- J. Reverse allocation of corporate overhead of \$224,000 from Oil States.
- K. Reduce HWC depreciation expense by \$251,000 for reduced basis in fixed assets.
- L. Pay estimated capitalized deferred financing fees of \$175,000 and amortize \$44,000 during 2004.
- M. Reverse other interest expense for HWC and Boots & Coots of \$492,000.

### *Pro Forma Adjustments for the September 30, 2005 Financial Statements*

- A. Repay existing subordinated debt of \$5,100,000 (\$3,900,000 in long-term debt and \$1,200,000 in current debt) with borrowings under new credit facility, eliminate interest expense of \$257,000 net of troubled debt restructuring credits for the nine months ended September 30, 2005.
- B. Settle non-cash troubled debt restructuring current liability of \$278,000 as a consequence of repayment of existing subordinated debt.
- C. Settle existing current senior debt of \$750,000 with borrowings under new credit facility and eliminate interest expense of \$39,000 for the nine months ended September 30, 2005.
- D. Settle non-cash troubled debt restructuring long term liability of \$396,000 as a result of repayment of existing subordinated debt.
- E. Repurchase 50,000 shares of Series A preferred stock with borrowings under new credit facility and eliminate dividend expense of \$525,000 for the nine months ended September 30, 2005.
- F. Settle accrued dividends and interest of \$2,536,000 on Series A preferred stock through issuance of 2,536,000 shares of common stock (valued at \$1.00 per share) and eliminate compounded dividends in the amount of \$104,000 for the nine months ended September 30, 2005.
- G. Repurchase 2,800 shares of Series C preferred stock for \$267,000 with borrowings under new credit facility and eliminate dividend expense of \$20,000 for the nine months ended September 30, 2005.
- H. Borrow \$2,867,000 under new credit facility at LIBOR plus 2.5%, resulting in an increase in interest expense of \$144,000 for the nine months ended September 30, 2005.
- I. Issue \$15,000,000 subordinated notes as a component of the purchase price in Transaction. An additional \$1,479,000 of subordinated notes is due to be issued under the Transaction Agreement as a result of excess net

working capital acquired as of September 30, 2005. Increase in interest expense by a total of \$1,236,000 for the nine months ended September 30, 2005.

- J. Borrow \$9,700,000 under new term loan at LIBOR plus 3.0%, of which \$1,940,000 is current, resulting in an increase in interest expense of \$413,000 during for the nine months ended September 30, 2005
- K. Issue 26,462,137 shares of common stock in Transaction for value of \$27,754,000.
- L. Pay capitalized transaction costs of approximately \$1,275,000 related to the Transaction (legal fees, accounting fees, appraisal fees, finding fees, etc.).
- M. Decrease Property, Plant and Equipment by \$2,146,000 to current market value of HWC.
- N. Reverse all accumulated depreciation of \$20,979,000 of HWC.
- O. Offset HWC deferred tax liability of \$443,000 against Boots & Coots net operating loss carry-forward.
- P. Contribution to capital \$15,562,000 inter-company payable of HWC.
- Q. Offset HWC deferred tax liability of \$3,053,000 against Boots & Coots net operating loss carry-forward.
- R. Reverse \$18,575,000 of common stock and additional paid in capital of HWC.
- S. Reverse \$1,367,000 of accumulated deficit (retained earnings) of HWC.
- T. Reduce cash balance by \$4,729,000 to reflect the amount of cash not acquired in the transaction.
- U. Reverse allocation of corporate overhead of \$198,000 from OIS.
- V. Write off deferred financing costs of \$860,000 related to the Prudential subordinated note.
- W. Reduce depreciation expense of \$216,000 for reduced basis in fixed assets.
- X. Pay estimated capitalized deferred finance fees of \$175,000 and amortize \$33,000 in 2005.
- Y. Reverse other interest expense for HWC and Boots & Coots of \$240,000.

**SECURITY OWNERSHIP OF  
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following tables set forth, as of December 1, 2005, information regarding the ownership of our common stock owned by (i) each person (or "group" within the meaning of Section 13(d)(3) of the Security Exchange Act of 1934) that we know owns beneficially more than 5% of the common stock; (ii) each of our directors, (iii) each of our named executive officers and (iv) all of our executive officers and directors as a group on an actual and pro forma basis giving effect to the Transaction but without giving effect to the repurchase of our Series A preferred stock and the issuance of shares of our common stock in connection therewith.

**Boots & Coots International Well Control, Inc.**

<b><u>Name and Address of Beneficial Owner(1)</u></b>	<b><u>Amount and Nature of Beneficial Ownership</u></b>	<b><u>Percent of Class</u></b>
Jerry L. Winchester	653,561(2)	2.2%
K. Kirk Krist	940,259(3)	3.1%
Dewitt H. Edwards	--	*
Kevin D. Johnson	83,100(4)	*
W. Richard Anderson	160,000(5)	*
Jed DiPaolo	103,750(6)	*
Robert S. Herlin	103,750(7)	*
The Prudential Insurance Company of America Four Gateway Center 100 Mulberry Street Newark, New Jersey 07102	1,829,635	6.2%
All executive officers and directors as a group (seven people)	2,144,420	6.6%

\* less than 1%

(1) Unless otherwise noted, the business address for purposes hereof for each person listed is 11615 N. Houston Rosslyn, Houston, Texas 77086. Beneficial owners have sole voting and investment power with respect to the shares unless otherwise noted.

(2) Includes options and/or warrants to purchase 513,750 shares of common stock exercisable within 60 days.

(3) Includes options and/or warrants to purchase 312,500 shares of common stock exercisable within 60 days

(4) Consists of options to purchase 83,100 shares of common stock exercisable within 60 days

(5) Includes options and/or warrants to purchase 160,000 shares of common stock exercisable within 60 days.

(6) Consists of options to purchase 103,750 shares of common stock exercisable within 60 days.

(7) Consists of options to purchase 103,750 shares of common stock exercisable within 60 days.

**The Combined Company**

<b><u>Name and Address of Beneficial Owner(1)</u></b>	<b><u>Amount and Nature of Beneficial Ownership</u></b>	<b><u>Percent of Class</u></b>
Jerry L. Winchester	653,561 (2)	1.1%
K. Kirk Krist	940,259 (3)	1.6%
Dewitt H. Edwards	--	*
Kevin D. Johnson	83,100 (4)	*
W. Richard Anderson	160,000 (5)	*
Jed DiPaolo	103,750 (6)	*
Robert S. Herlin	103,750 (7)	*
Don Cobb	100,000 (8)	*
Gabe Aldape	50,000 (9)	*
HWC Energy Services, Inc.	26,462,137(10)	45.2%
All executive officers and directors as a group (nine people)	2,194,420	3.6%

\* less than 1%

(1) Unless otherwise noted, the business address for purposes hereof for each person listed is 11615 N. Houston Rosslyn, Houston, Texas 77086. Beneficial owners have sole voting and investment power with respect to the shares unless otherwise noted.

(2) Includes options and/or warrants to purchase 513,750 shares of common stock exercisable within 60 days.

(3) Includes options and/or warrants to purchase 312,500 shares of common stock exercisable within 60 days

(4) Consists of options to purchase 83,100 shares of common stock exercisable within 60 days

(5) Includes options and/or warrants to purchase 160,000 shares of common stock exercisable within 60 days.

(6) Consists of options to purchase 103,750 shares of common stock exercisable within 60 days.

(7) Consists of options to purchase 103,750 shares of common stock exercisable within 60 days.

(8) Consists of options to purchase 100,000 shares of common stock exercisable within 60 days.

(9) Consists of options to purchase 50,000 shares of common stock exercisable within 60 days.

(10) HWC Energy Services Inc. is a wholly owned subsidiary of Oil States International, Inc., which may be deemed to have shared voting and investment power over such shares.

**Summary of the Terms of the Transaction Agreement*****Transaction Consideration***

The Transaction Agreement provides that at the effective time of the Transaction, we will pay HWC Energy Services aggregate consideration consisting of 26,462,137 of our common stock and an unsecured subordinated promissory notes issued by us in the aggregate principal amount of \$15.0 million, and bearing an interest at a rate of 10% per annum, allocated as follows: (i) 10,584,854 shares of our common stock, subject to adjustment, as consideration for the sale of all issued and outstanding shares of capital stock HWCES; (ii) an unsecured senior subordinated promissory note issued by us in the principal amount of \$10 million, subject to adjustment, as consideration for all issued and outstanding shares of capital stock of HWC Limited; and (iii) 15,877,283 shares of our common stock and an unsecured senior subordinated promissory note issued by us in the principal amount of \$5 million as consideration for the merger of Acquisition Sub with and into HWC LLC, which will survive the merger as our wholly owned subsidiary.

The consideration for the Transaction has been based in part on the following: (i) HWCES having a minimum working capital (current assets minus current liabilities) of \$1.3 million as of the closing date, (ii) HWC Limited having a minimum working capital of \$1.2 million as of the closing date, and (iii) HWC LLC having a minimum working capital of \$2.2 million as of the closing date. At closing, HWC Energy Services will provide us with a consolidated balance sheet for each of HWCES, HWC Limited, and HWC LLC to confirm that each entity has such minimum working capital. No later than 45 days after the closing date, we will deliver closing date balance sheets together with a worksheet showing the difference, if any, between the working capital calculations prepared by the HWC Energy Services and those prepared by us for each of HWCES, HWC Limited, and HWC LLC. HWC Energy Services will have 10 days from the receipt of the closing date balance sheets to provide us notice of any dispute of the closing date balance sheet or the working capital calculations. If HWC Energy Services provides a notice of dispute, we and HWC Energy Services will have 20 days to attempt in good faith to resolve such dispute. If we and HWC Energy Services are unable to resolve such dispute during that period, either we or HWC Energy Services may refer the dispute to a firm of independent accountants mutually agreeable to us and HWC Energy Services or refer the matter to binding arbitration.

In the event that the HWCES, HWC Limited, or HWC LLC working capital calculations prepared by us are less than \$1.3 million, \$1.2 million, and \$2.2 million, respectively, HWC Energy Services is required to promptly wire transfer the difference to us. In the event the HWCES, HWC Limited, or HWC LLC working capital calculations prepared by us are more than \$1.3 million, \$1.2 million, and \$2.2 million, respectively, we, at our election, are required either (i) to promptly wire transfer the difference to HWC Energy Services in immediately available funds or (ii) to increase the principal amount of the promissory notes by an amount equal to the excess working capital.

If, between the date of the Transaction Agreement and the effective time, the shares of our common stock are changed into a different number or class of shares by reason of stock split, combination, reclassification, recapitalization, exchange of shares or similar readjustment, or a stock dividend is declared with a record date within that period, appropriate adjustments will be made to number of shares of our common stock issued as part of the Transaction consideration.

### ***Effective Time***

The Transaction will be completed when we file the certificate of merger of HWC LLC with the Secretary of State of the State of Delaware and we issue our stock and senior subordinated notes to HWC Energy Services and we receive all of the issued and outstanding shares of capital stock of HWCES and HWC Limited.

Subject to satisfaction of the other conditions to the Transaction, we anticipate that the closing of the Transaction will occur within five business days after the approval of the issuance of shares of our common stock by the requisite vote of our stockholders. However, the effective time of the Transaction could be delayed if there is a delay in satisfying any of the conditions to the Transaction. There can be no assurances as to whether, or when, we will obtain the required approvals or complete the Transaction. If the Transaction is not completed on or before April 1, 2006, either we or HWC Energy Services may terminate the Transaction Agreement, unless the failure to complete the Transaction by that date is due to the material breach of the Transaction Agreement by the party seeking to terminate the agreement. See “— Conditions to the Completion of the Transaction” immediately below.

### ***Conditions to the Completion of the Transaction***

The completion of the Transaction is subject to various conditions. While we anticipate that all of these conditions will be satisfied, there can be no assurance as to whether or when all of the conditions will be satisfied or, where permissible, waived.

***Conditions to Each Party's Obligations***

Each party's obligation to complete the Transaction is subject to the satisfaction or waiver of the following conditions:

• The issuance of our shares of common stock shall have been approved by the requisite vote of our stockholders in accordance with our certificate of incorporation and bylaws, applicable laws, and the rules of the American Stock Exchange;

• The shares of our common stock to be issued to HWC Energy Services pursuant to the Transaction Agreement shall have been approved for listing, subject to official notice of issuance, by the American Stock Exchange;

• We shall have (i) entered into a new credit facility with Wells Fargo Business Credit, Inc. and have used borrowings under the credit facility to repay all of our obligations to The Prudential Insurance Company of America and San Juan Investments LLC and (ii) redeemed or repurchased all of our outstanding shares of preferred stock, in accordance with our agreement with Halliburton Energy Services and as otherwise acceptable to HWC Energy Services;

• No proceeding, action, claim, suit, investigation, or any inquiry by or before any arbitrator or governmental authority shall, on the closing date of the Transaction, be pending or threatened that seeks to restrain, prohibit, or obtain damages or other relief in connection with the Transaction Agreement or the consummation of the transactions contemplated therein;

• All consents, approvals, orders, authorizations, and waivers of, and all declarations, filings, and registrations with, third parties (including governmental authorities) required to be obtained or made by or on the part of the parties for the consummation of the Transaction shall have been obtained or made, and all thereof shall be in full force and effect at the time of the closing of the Transaction;

• We and American Stock Transfer & Trust Company shall have entered into a rights plan amendment to exclude from the operation of the rights plan the issuance of our shares of common stock in the Transaction;

• We shall have issued options to purchase shares of our common stock to certain employees of the acquired companies, as set forth in the Transaction Agreement; and

• We shall have provided HWC Energy Services with certain other certificates, instruments, and documents related to the closing of the Transaction.

***Conditions to the Obligations of HWC Energy Services***

The obligation of HWC Energy Services and HWCES, HWC Limited, and HWC LLC, and HWCES to complete the Transaction is subject to the satisfaction or waiver of the following conditions:

• Accuracy in all material respects of our and our subsidiaries' representations and warranties contained in the Transaction Agreement and in any agreement, instrument, or document delivered pursuant to the Transaction Agreement or in connection therewith;



We and our subsidiaries shall have performed and complied with in all material respects all covenants and agreements required by the Transaction Agreement to be performed or complied with by us or them on or prior to the closing date of the Transaction;

We shall have taken all necessary corporate and other action to increase the size of our board of directors to a total of eight members and to appoint three individuals designated by HWC Energy Services and reasonably acceptable to us, such appointments to be effective immediately following the closing of the Transaction;

We shall have obtained all director and stockholder approvals necessary to approve a certificate of amendment to our certificate of incorporation to renounce certain corporate opportunities, and such amendment shall have been filed with the Secretary of State of Delaware to become effective as of the closing of the Transaction;

The registration rights with respect to our shares held or issuable to Halliburton Energy Services, Inc. and The Prudential Insurance Company of America or their affiliates shall have been terminated; and

We and HWC Energy Services shall have entered into a registration rights agreement regarding the shares of our common stock issued to HWC Energy Services upon consummation of the Transaction.

### ***Conditions to the Obligations of Us, Merger Sub, and Acquisition Sub***

The obligation of us, Merger Sub and Acquisition Sub to complete the Transaction is subject to the satisfaction or waiver of the following conditions:

Accuracy in all material respects of the representations and warranties of HWC Energy Services contained in the Transaction Agreement, and in any agreement, instrument, or document delivered pursuant thereto or in connection therewith;

HWC Energy Services shall have caused the credit agreement encumbrances of Oil States International, Inc., to have been released insofar as they cover the shares of the capital stock of HWCES, HWC Limited, and HWC LLC, and HWCES, HWC Limited, and HWC LLC shall have been released from liability for any guarantees related to such credit agreement; and

HWC Energy Services, HWCES, HWC Limited, and HWC LLC, and HWCES shall have performed and complied with in all material respects all covenants and agreements required by the Transaction Agreement to be performed or complied with by them on or prior to the closing date of the Transaction.

### **Representations and Warranties**

The Transaction Agreement contains representations and warranties made by each of the parties regarding aspects of their respective businesses, financial condition and structure, as well as other facts pertinent to the Transaction. Each of HWC Energy Services, HWCES, HWC Limited, and HWC LLC, on the one hand, and us, Merger Sub, and Acquisition Sub, on the other hand, has made representations and warranties to the other in the Transaction Agreement with respect to the following subject matters:

Y corporate or limited liability company existence, good standing and qualification to conduct business;

• absence of any conflict or violation of organizational documents, third party agreements or law or regulation as a result of entering into and carrying out the obligations of the Transaction Agreement;

• corporate or limited liability company power and authorization to enter into and carry out the obligations of the Transaction Agreement and the enforceability of the Transaction Agreement;

• governmental, third party and regulatory approvals or consents required to complete the Transaction;

• capitalization, including ownership of subsidiary capital stock or other form of equity interest, and the absence of restrictions or encumbrances with respect to capital stock or other form of equity interest of any subsidiary;

• financial information, including accounts receivable;

• absence of undisclosed liabilities;

• absence of certain changes, events or circumstances;

• tax matters;

• compliance with laws;

• litigation, government orders, judgments and decrees;

• permits;

• environmental matters;

• insurance;

• title to properties and encumbrances thereto;

• sufficiency and condition of properties;

• real property and leased property;

• material contracts and agreements;

• intellectual property;

• labor and employment matters, including employee benefit plans;

• customers and suppliers;

• books and records;

• illegal payments; and

• brokers or finders.



Additionally, we have made certain representations regarding our filings and reports with the SEC, and HWC Energy Services has made certain representations regarding its investment experience, its investment intent, and restricted securities.

### ***Conduct of Business Pending the Transaction***

Except as expressly provided in the Transaction Agreement and except as consented to by us or HWC Energy Services, during the period from the date of the Transaction Agreement until the effective time of the Transaction, HWC Energy Services shall cause HWCES, HWC Limited, and HWC LLC, and we shall and shall cause our subsidiaries (i) to conduct our respective operations in the ordinary course of business consistent with past practice; (ii) to use reasonable efforts to preserve, maintain, and protect our respective properties; and (iii) to use reasonable efforts to preserve intact our respective business organizations, to keep available the services of our respective officers and employees, and to maintain existing relationships with material licensors, licensees, suppliers, contractors, distributors, customers, and others having material business relationships with us and them.

### ***Operations of HWC Energy Services and HWCES, HWC Limited, and HWC LLC***

Prior to the effective time of the Transaction, HWC Energy Services has agreed that it shall not cause or permit HWCES, HWC Limited, or HWC LLC to, and each of HWCES, HWC Limited, or HWC LLC, as to itself and their respective subsidiaries, has agreed that it shall not, without our prior written consent (which consent shall not be unreasonably withheld or delayed):

• amend their organizational or charter documents;

• issue, sell, or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase, or otherwise) any shares of capital stock of any class or any other securities or equity equivalents; or (ii) amend in any respect any of the terms of any such securities outstanding as of the date hereof;

• split, combine, or reclassify any shares of their respective capital stock; (ii) declare, set aside, or pay any non-cash dividend or other non-cash distribution (whether in stock or property or any combination thereof) in respect of such capital stock; (iii) repurchase, redeem, or otherwise acquire any of their respective securities; or (iv) adopt a plan of complete or partial liquidation or resolutions providing for or authorizing a liquidation, dissolution, merger, consolidation, restructuring, recapitalization, or other reorganization;

• except in the ordinary course of business consistent with past practice, create, incur, guarantee, or assume any indebtedness for borrowed money or otherwise become liable or responsible for the obligations of any other person; (ii) make any loans, advances, or capital contributions to, or investments in, any other person (other than customary loans or advances to employees in amounts not material to the maker of such loan or advance); (iii) pledge or otherwise encumber shares of capital stock; or (iv) except in the ordinary course of business consistent with past practice, mortgage or pledge any of their respective assets, tangible or intangible, or create or suffer to exist any lien thereupon, except, in each of (i) through (iv) above, in connection with guarantees of credit agreement Indebtedness or encumbrances, which will be released at the closing of the Transaction;

• enter into, adopt, or (except as may be required by law) amend or terminate any bonus, profit sharing, compensation, severance, termination, stock option, stock appreciation right, restricted stock, performance unit, stock equivalent, stock purchase, pension, retirement, deferred compensation, employment, severance, or other employee benefit agreement, trust, plan, fund, or other arrangement for the benefit or welfare of any director, officer, or employee of HWCES, HWC Limited, or HWC LLC or any of their respective subsidiaries; (ii) except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to HWCES, HWC Limited, or HWC LLC or any of their

respective subsidiaries, increase in any manner the compensation or fringe benefits of any director, officer, or employee of HWCES, HWC Limited, or HWC LLC or any of their respective subsidiaries; or (iii) pay to any director, officer, or employee of HWCES, HWC Limited, or HWC LLC or any of their respective subsidiaries any benefit not required by any employee benefit agreement, trust, plan, fund, or other arrangement as in effect on the date of the Transaction Agreement;

• Acquire, sell, lease, transfer, or otherwise dispose of, directly or indirectly, any assets outside the ordinary course of business consistent with past practice or any assets that in the aggregate are material to them and any of their respective subsidiaries considered as a whole, except that HWCES, HWC Limited, and HWC LLC shall be entitled to transfer certain excluded assets to HWC Energy Services or any of its affiliates prior to the closing of the Transaction;

• Acquire (by merger, consolidation, or acquisition of stock or assets or otherwise) any corporation, partnership, or other business organization or division thereof;

• Make any unbudgeted capital expenditure or expenditures which, individually, is in excess of \$100,000 or, in the aggregate, are in excess of \$500,000;

• Except in the ordinary course of business consistent with past practice, amend any tax return or make any tax election or settle or compromise any federal, state, local, or foreign tax liability material to HWCES, HWC Limited, or HWC LLC and any of their respective subsidiaries considered as a whole;

• Enter into any lease, contract, agreement, commitment, arrangement, or transaction outside the ordinary course of business consistent with past practice;

• Amend, modify, or change in any material respect any existing material lease, contract, or agreement, other than in the ordinary course of business consistent with past practice;

• Waive, release, grant, or transfer any material rights of value, other than in the ordinary course of business consistent with past practice;

• Change any of their respective banking or safe deposit arrangements;

• Make any action which would or might make any of their representations or warranties contained in the Transaction Agreement untrue or inaccurate as of any time from the date of the Transaction Agreement to the closing of the Transaction or would or might result in any of the conditions set forth in the Transaction Agreement not being satisfied; or

• Authorize or propose, or agree in writing or otherwise to take, any of the actions described above.

***Operations of Us, Merger Sub, and Acquisition Sub***

Prior to the effective time of the Transaction, we have agreed as to us and our subsidiaries that we shall not and we shall not permit our subsidiaries to, without the prior written consent of HWC Energy Services (which consent shall not be unreasonably withheld or delayed):

ÿ amend our or any of our subsidiaries' organizational or charter documents;

ÿ issue, sell, or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase, or otherwise) any shares of our common stock or any other securities or equity equivalents other than the issuance of options to purchase up to 250,000 shares of our common stock under stock option plans currently authorized and the issuance of our common stock upon the exercise of options issued thereunder that are outstanding on the date hereof or pursuant to the exercise or conversion of our securities outstanding on the date of the Transaction Agreement, in each case in accordance with their terms; or (ii) amend in any material respect any of the terms of any such securities outstanding as of the date of the Transaction Agreement;

ÿ split, combine, or reclassify any shares of our common stock or any other securities or equity equivalents; (ii) declare, set aside, or pay any dividend or other distribution (whether in cash, stock, or property or any combination thereof) in respect of our common stock or any other securities or equity equivalents, except in the case of permitted refinancing transactions; (iii) repurchase, redeem, or otherwise acquire any shares of our common stock or any other securities or equity equivalents, except in the case of permitted refinancing transactions; or (iv) adopt a plan of complete or partial liquidation or resolutions providing for or authorizing a liquidation, dissolution, merger, consolidation, restructuring, recapitalization, or other reorganization of us or any of our subsidiaries;

ÿ except in the ordinary course of business consistent with past practice, create, incur, guarantee, or assume any indebtedness for borrowed money or otherwise become liable or responsible for the obligations of any other person; (ii) make any loans, advances, or capital contributions to, or investments in, any other person (other than customary loans or advances to employees in amounts not material to the maker of such loan or advance); (iii) pledge or otherwise encumber shares of capital stock of us or our subsidiaries; or (iv) except in the ordinary course of business consistent with past practice, mortgage or pledge any of their respective assets, tangible or intangible, or create or suffer to exist any lien thereupon, except, in each of (i) through (iv) above, in connection with the refinancing of our indebtedness with Prudential;

ÿ enter into, adopt, or (except as may be required by law) amend or terminate any bonus, profit sharing, compensation, severance, termination, stock option, stock appreciation right, restricted stock, performance unit, stock equivalent, stock purchase, pension, retirement, deferred compensation, employment, severance, or other employee benefit agreement, trust, plan, fund, or other arrangement for the benefit or welfare of any director, officer, or employee of us or our subsidiaries; (ii) except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to us or any of our subsidiaries, increase in any manner the compensation or fringe benefits of any director, officer, or employee of us or our subsidiaries; or (iii) pay to any director, officer, or employee of us or our subsidiaries any benefit not required by any employee benefit agreement, trust, plan, fund, or other arrangement as in effect on the date of the Transaction Agreement;

ÿ acquire, sell, lease, transfer, or otherwise dispose of, directly or indirectly, any assets outside the ordinary course of business consistent with past practice or any assets that in the aggregate are material to us and our subsidiaries considered as a whole;

Acquire (by merger, consolidation, or acquisition of stock or assets or otherwise) any corporation, partnership, or other business organization or division thereof that, individually or in the aggregate, would be material to us and our subsidiaries considered as a whole;

Make any unbudgeted capital expenditure or expenditures which, individually, is in excess of \$50,000 or, in the aggregate, are in excess of \$200,000;

Except in the ordinary course of business consistent with past practice, amend any tax return or make any tax election or settle or compromise any federal, state, local, or foreign tax liability material to us and our subsidiaries considered as a whole;

Enter into any lease, contract, agreement, commitment, arrangement, or transaction outside the ordinary course of business consistent with past practice;

Amend, modify, or change in any material respect any existing material lease, contract, or agreement, other than in the ordinary course of business consistent with past practice;

Waive, release, grant, or transfer any material rights of value, other than in the ordinary course of business consistent with past practice;

Take any action which would or might make any of the representations or warranties of us or any of our subsidiaries contained in the Transaction Agreement untrue or inaccurate as of any time from the date of the Transaction Agreement to the closing of the Transaction or would or might result in any of the conditions set forth in the Transaction Agreement not being satisfied; or

Y authorize or propose, or agree in writing or otherwise to take, any of the actions above.

### ***Reasonable Efforts to Consummate the Transaction***

Each party to the Transaction Agreement agrees that it will not voluntarily undertake any course of action inconsistent with the provisions or intent of the Transaction Agreement and will use its reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things reasonably necessary, proper, or advisable under applicable laws to consummate the transactions contemplated in the Transaction Agreement.

### ***No Solicitation of Alternative Transactions***

From the date of the Transaction Agreement until the earlier of the termination of the Transaction Agreement and the closing of the Transaction, none of HWC Energy Services, HWCES, HWC Limited, HWC LLC, or their respective subsidiaries or any affiliate, director, officer, employee, or representative of HWCES, HWC Limited, HWC LLC or their respective subsidiaries shall (i) directly or indirectly solicit or initiate discussions or negotiations with any person (other than us) concerning any merger, consolidation, sale of assets, tender offer, sale of shares of capital stock, or similar transaction involving HWCES, HWC Limited, HWC LLC, or any of their respective subsidiaries, or (ii) disclose directly or indirectly to any person preparing to make an acquisition proposal involving HWCES, HWC Limited, HWC LLC, or any of their respective subsidiaries any confidential information regarding HWCES, HWC Limited, HWC LLC, or any of their respective subsidiaries, or (iii) enter into any agreement, arrangement, understanding, or commitment regarding any acquisition proposal involving HWCES, HWC Limited, HWC LLC, or any of their respective subsidiaries; provided, however, that these restrictions shall not apply to any acquisition proposal relating to Oil States International, Inc. and its subsidiaries as a whole.





### ***Employee Benefit Plans***

Immediately following the closing of the Transaction, we shall provide, or cause the surviving company to provide, employees of HWCES, HWC Limited, HWC LLC, and their respective subsidiaries (excluding employees covered by collective bargaining agreements) with pension, health, medical, and other similar employee benefits under employee benefit plans (as such term is defined in Section 3(3) of ERISA) that are no less favorable, in the aggregate, than the comparable employee benefits provided for such employees by HWCES, HWC Limited, HWC LLC, and their respective subsidiaries as of the date of the Transaction Agreement (excluding, for these purposes, (i) any award, reward, incentive, or other bonus plan, program, or arrangement and (ii) any plan, program, or arrangement relating in any way to any shares of capital stock of HWC Energy Services or any of its affiliates). Notwithstanding the foregoing, except as otherwise expressly provided by the Transaction Agreement, we are not required (x) to maintain any particular plan, program, or arrangement following the closing of the Transaction or (y) obligated to issue to employees of HWCES, HWC Limited, HWC LLC, and their respective subsidiaries, or adopt any plan, program, or arrangement to provide for the issuance to such employees of, any shares of their capital stock or any securities convertible into or exchangeable for such shares or any options or other rights in respect of such shares or such convertible or exchangeable securities.

The employee benefit plans of HWCES, HWC Limited, HWC LLC as currently in effect (with such changes after the closing of the Transaction as we determine to be necessary or desirable) shall be maintained by us after the closing of the Transaction until December 31, 2006 and payments shall be made in accordance with such plan, as amended, and consistent with past practice, to the extent accrued on the financial statements of HWC Energy Services.

We shall pay, or cause the surviving company to pay, without offset, deduction, counterclaim, interruption, or deferment (other than as required by applicable law) all benefits due under the terms of all contracts, agreements, policies, and commitments of HWCES, HWC Limited, HWC LLC, and their respective subsidiaries with or with respect to their present or former directors, officers, and employees, including, without limitation, benefits that are vested or accrued at or prior to the effective time of the Transaction or which become vested or accrued as a result of the transactions contemplated in the Transaction Agreement, which benefits have not been satisfied.

### ***American Stock Exchange Listing***

We are required to use our reasonable efforts to cause the shares of common stock issued to HWC Energy Services in the Transaction to be approved for listing on the American Stock Exchange, subject to official notice of issuance, prior to the effective time of the Transaction.

### ***Expenses***

Except as otherwise expressly provided in the Transaction Agreement, all fees and expenses, including fees and expenses of counsel, financial advisors, and accountants, incurred by any party shall be borne by the party incurring such fees and expenses; provided, however, that fees and expenses incurred by HWC Energy Services on behalf of or for the benefit of HWCES, HWC Limited, and HWC LLC, in connection with the Transaction Agreement shall be reimbursed by us promptly after closing of the Transaction, if closing occurs.

***Termination of the Transaction Agreement***

The Transaction Agreement may be terminated and the transactions contemplated therein abandoned at any time prior to the closing of the Transaction in the following manner:

Ÿ by mutual written consent of HWC Energy Services and us;

Ÿ either HWC Energy Services or us, if the closing of the Transaction shall not have occurred on or before April 1, 2006, unless the failure to close is due to a breach of the Transaction Agreement by the party seeking to terminate the Transaction Agreement;

Ÿ us, upon a breach of any representation, warranty, covenant, obligation or agreement on the part of HWC Energy Services, HWCES, HWC Limited, or HWC LLC set forth in the Transaction agreement or if any representation or warranty of HWC Energy Services, HWCES, HWC Limited, or HWC LLC is untrue, in either case such that the conditions to closing the Transaction would not be satisfied and such breach or untruth is not curable by HWC Energy Services, HWCES, HWC Limited, or HWC LLC, or if curable, is not cured within 30 days after we have delivered notice thereof to HWC Energy Services;

Ÿ HWC Energy Services, upon a breach of any representation, warranty, covenant, obligation or agreement on the part of us, Merger Sub, or Acquisition Sub set forth in the Transaction Agreement or if any representation or warranty of us, Merger Sub, or Acquisition Sub is untrue, in either case such that the conditions to close the Transaction would not be satisfied and such breach or untruth is not curable by us, Merger Sub, or Acquisition Sub, or, if curable, is not cured within 30 days after we have received notice thereof;

Ÿ us or HWC Energy Services, if the requisite approval by our stockholders is not obtained at the annual meeting (including any adjournment or postponement thereof);

Ÿ HWC Energy Services, if our board of directors (i) fails to recommend, or withdraws, modifies or changes in any manner adverse to HWC Energy Services its recommendation of, the Transaction Agreement and the Transaction to our stockholders or (ii) resolves to take any such action; or

Ÿ either HWC Energy Services or us, if there shall be any statute, rule, or regulation that makes consummation of the transactions contemplated in the Transaction Agreement illegal or otherwise prohibited or a governmental authority shall have issued an order, decree, or ruling or taken any other action permanently restraining, enjoining, or otherwise prohibiting the consummation of the transactions contemplated in the Transaction Agreement, and such order, decree, ruling, or other action shall have become final and nonappealable.

In the event of the termination of the Transaction Agreement pursuant one of the conditions listed above by us or HWC Energy Services, the Transaction Agreement shall become void and have no effect, and there shall be no liability hereunder on the part of us, Merger Sub, Acquisition Sub, HWC Energy Services, HWCES, HWC Limited, or HWC LLC, or any of their respective directors, officers, employees, stockholders, or representatives. The termination of the Transaction Agreement shall not, however, relieve any party from liability for any breach of the Transaction Agreement.

### ***Amendment and Waiver***

Any provision of the Transaction Agreement (including the exhibits thereto) may be amended, to the extent permitted by applicable law, prior to the effective time of the Transaction if, and only if, such amendment is in writing and signed by the parties thereto.

Each of the parties to the Transaction Agreement may (i) waive any inaccuracies in the representations and warranties of the other contained in the Transaction Agreement or in any document, certificate or writing delivered pursuant thereto or (ii) waive compliance by the other with any of the other's agreements or fulfillment of any conditions to its own obligations contained in the Transaction Agreement. Any agreement on the part of a party to the Transaction Agreement to any such waiver shall be valid only if set forth in an instrument in writing signed by or on behalf of such party.

### ***Indemnification***

HWC Energy Services has agreed to indemnify, defend, and hold harmless us and our affiliates from and against any and all claims, actions, causes of action, demands, assessments, losses, damages, liabilities, judgments, settlements, penalties, costs, and expenses (including reasonable attorneys' fees and expenses), of any nature whatsoever, asserted against, resulting to, imposed upon, or incurred by us and our affiliates, directly or indirectly, by reason of or resulting from any untruth, inaccuracy or breach of any of the representations, warranties, covenants, or agreements of HWC Energy Services, HWCES, HWC Limited, and HWC LLC contained in the Transaction Agreement or in any document delivered pursuant thereto.

We have agreed to indemnify, defend, and hold harmless the HWC Energy Services and its affiliates from and against any and all claims, actions, causes of action, demands, assessments, losses, damages, liabilities, judgments, settlements, penalties, costs, and expenses (including reasonable attorneys' fees and expenses), of any nature whatsoever, asserted against, resulting to, imposed upon, or incurred by the HWC Energy Services and its affiliates, directly or indirectly, by reason of or resulting from any untruth, inaccuracy or breach of any of the representations, warranties, covenants, or agreements of us, Acquisition Sub, and Merger Sub contained in the Transaction Agreement or in any transaction document delivered pursuant thereto.

The maximum amount of damages for which one party may be liable to the other party is generally \$3.9 million except in the event of certain representations and warranties relating to the capitalization of the parties and their subsidiaries, authority to enter into the Transaction, brokers and finders fees, the issuance of the shares of our common stock and the senior subordinated promissory notes, and payments made in violation of the Foreign Corrupt Practices Act, in which case the maximum amount of damages is \$39.0 million. No party shall be entitled to indemnification until such damages exceed \$390,000, and then only for the amount by which such damages exceed this deductible.

### ***Registration Rights***

In connection with the closing of the transaction, we and HWC Energy Services will enter into a registration rights agreement for the benefit of the holders of outstanding shares of our common stock to be issued in connection with the Transaction. Pursuant to the registration rights agreement, we will agree to (i) file within 30 days after the closing date of the Transaction a registration statement covering resales of the shares of common stock issuable upon effectiveness of the Transaction, (ii) use our reasonable best efforts to have such registration statement declared effective by the SEC as soon as practicable thereafter, and (iii) maintain the effectiveness of the registration statement until the earlier of (I) the later of (a) the date which is 24 months after the closing date and (b) such time as HWC Energy Services ceases to own at least 5% of the outstanding shares of our common stock, and (II) the later of (x) the fourth anniversary of the closing date and (y) the earliest date that all of the shares registered thereunder have been sold under the registration statement or otherwise ceased to be "registrable shares" (as defined in the registration rights

agreement).

57

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Although we intend to file the registration statement described above on Form S-3 shortly after the effectiveness of the Transaction, in accordance with the provisions of the registration rights agreement, there can be no assurance that the registration statement will become effective.

We will also provide each holder of registrable shares copies of the prospectus that is a part of the registration statement, notify such holder when the registration statement has become effective, and take certain other actions as are required to permit and effectuate unrestricted resales. A holder who sells such registered shares under the registration statement generally will be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with the sales, and will be bound by the provisions of the registration rights agreement that are applicable to the holder (including certain indemnification and contribution rights and obligations).

In the event that we propose to register any shares other than the registrable shares, HWC Energy Services shall have the right to include in such registration any number of its registrable shares. However, if the managing underwriter advises us that the inclusion of such registrable shares would interfere with the successful marketing of the shares proposed to be registered, then the shares shall be included in the registration as follows: (x) first, authorized but unissued shares of our common stock, and (y) second, the registrable shares and any other shares to be included in the registration on a pro rata basis.

If we register shares of our common stock in an underwritten public offering, HWC Energy Services shall not sell publicly, make any short sale of, grant any option for the purchase of, or otherwise dispose publicly of, any common stock (other than those shares included in such registration pursuant to the terms of the registration rights agreement) with our prior written consent, for a period designated by us, which period shall begin not more than 10 days prior to the date of the final prospectus pursuant to which such public offering shall be made and shall not last more than 90 days after the date of such final prospectus. We will not register shares that would trigger this provision for at least 90 days after the effectiveness of the initial registration statement we file.

We have the right to direct holders to suspend sales of registrable shares under the registration statement if we are engaged in confidential negotiations or other confidential business activities or upon the occurrence of an event, in each case (A) that would require additional disclosure of material information in the registration statement and that has not been so disclosed, (B) as to which we have a bona fide business purpose of preserving confidentiality, or (C) that renders us unable to comply with SEC requirements. We may not require that sales be suspended for more than 60 days in any 12-month period and in no event may we give such notice to HWC to suspend sales during the 14 days following the second business day following receipt by us of notice by HWC Energy Services that HWC Energy Services desires to promptly sell registrable shares.

The preceding summary of certain provisions of the registration rights agreement is not intended to be complete, and you should read this summary together with the complete text of the registration rights agreement attached hereto as Annex C.

**PROPOSAL 2:****ELECTION OF CLASS II DIRECTORS****Our Board of Directors**

Our business and affairs are managed by our board of directors, which exercises all of our corporate powers and establishes broad corporate policies. Our certificate of incorporation requires that our board of directors consist of at least three and no more than nine individuals, with the exact number to be determined by the board. Currently, the size of our board of directors is fixed at five members, thereby requiring us to have a minimum of three independent directors under the rules of the American Stock Exchange. Of our current directors, W. Richard Anderson, Robert S. Herlin, and E. J. "Jed" DiPaolo are each "independent" as defined under the rules of the American Stock Exchange.

Our certificate of incorporation requires that our board of directors be divided into three classes, with each class having a staggered three-year term. Directors are elected to serve until the annual meeting of stockholders for the year in which their term expires and until their successors have been elected and qualified, subject, however, to their prior death, resignation, retirement, disqualification or removal from office. Assuming a quorum is present at the annual meeting, two Class II directors will be elected by a plurality of the votes of the holders of common stock present in person or represented by proxy at the meeting. Abstentions and broker non-votes have no effect on the vote. All duly submitted and unrevoked proxies will be voted for E.J. "Jed" DiPaolo and Jerry L. Winchester, the Class II nominees, except where authorization so to vote is withheld. If any nominee should become unavailable for election for any unforeseen reason, the persons designated as proxies will have full discretion to vote for another person nominated by the board of directors.

Messrs. DiPaolo and Winchester, the nominees selected to stand for re-election to our board of directors, have consented to serve as Class II directors if elected. Messrs. DiPaolo and Winchester are presently directors and have served continuously in that capacity since 2003 and 1998, respectively.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF EACH OF THE FOLLOWING DIRECTOR NOMINEES:

<u>Name of Nominee</u>	<u>Age</u>	<u>Year First Elected Director</u>	<u>Position</u>	<u>Class</u>	<u>Term</u>
E.J. "Jed" DiPaolo	52	1999	Director	II	Expires 2008
Jerry L. Winchester	47	1998	Director	II	Expires 2008

**DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS**

The following tables list the names and ages of each of our directors and executive officers, as well as those persons expected to make a significant contribution to us. There are no family relationships between any director and any other director or executive officer.

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>
K. Kirk Krist	47	Chairman of the Board
Jerry L. Winchester	47	President, Chief Executive Officer, Chief Operating Officer, and Director
W. Richard Anderson (1)	52	Director
E. J. DiPaolo (1)	52	Director
Robert S. Herlin (1)	50	Director
Dewitt H. Edwards	47	Senior Vice President - Finance, Administration
Kevin D. Johnson	53	Vice President - Accounting

(1) Member of the audit and compensation committees.

***Biographies of Executive Officers And Directors***

**K. Kirk Krist** has served as a Class III director since the acquisition of IWC Services by us on July 29, 1997. Mr. Krist's term as a director will expire on the date of the annual meeting of stockholders scheduled for calendar year 2006. On December 4, 2002, Mr. Krist was elected Chairman of the Board. Mr. Krist is a 1982 graduate of the University of Texas with a B.B.A. in Business. He has been a self-employed oil and natural gas investor and venture capitalist since 1982.

**Jerry L. Winchester** has served as our President, Class II Director and Chief Operating Officer since 1998. In July 2002 he assumed the position of Chief Executive Officer. Mr. Winchester will continue to serve as a Class II Director for a term that will expire on the date of the annual meeting of stockholders scheduled for calendar year 2005, and he is presently up for reelection for a term that will expire in 2008. Prior to joining us, Mr. Winchester was employed by Halliburton Energy Services since 1981 in positions of increasing responsibility, most recently as Global Manager - Well Control, Coil Tubing and Special Services. He received his B.S. in Engineering Technology from Oklahoma State University in 1982 and is an active member of the Society of Petroleum Engineers and the International Association of Drilling Contractors.

**W. Richard Anderson** has served as a Class I director since August 1999. Mr. Anderson also serves as chairman of the Audit Committee and is a member of the Compensation Committee. Mr. Anderson serves as a Class I Director for a term that will expire on the date of the annual meeting of stockholders scheduled for calendar year 2007. Mr. Anderson is the President, Chief Financial Officer and a director of Prime Natural Resources, a closely-held exploration and production company. Prior to his employment at Prime Natural Resources in January 1999, he was employed by Hein & Associates LLP, a certified public accounting firm, where he served as a partner from 1989 to January 1995 and as a managing partner from January 1995 until October 1998.





**Robert S. Herlin** was appointed a Class I director on September 30, 2003. Mr. Herlin serves on the Audit Committee and chairs the Compensation Committee. Mr. Herlin serves as a Class I Director for a term that will expire on the date of the annual meeting of stockholders scheduled for calendar year 2007. Since 2003, Mr. Herlin has served as the President, CEO and a Director of Natural Gas Systems, a private company involved in the acquisition and redevelopment of oil and gas properties. Since 2003, Mr. Herlin has served as a partner with Tatum Partners, a service company that provides CFO's and CEO's on a contract basis to clients. Prior to his employment at Natural Gas Systems, he was CFO of Intercontinental Tower Corporation, a wireless telecom infrastructure operation in South America from 2000 to 2003. From 1997 to 2000, he was President, CEO and CFO of Benz Energy, a company engaged in oil and gas exploration based on 3-D seismic information. Benz Energy filed for protection in November 2000 under Chapter 11 of Federal bankruptcy law; subsequently the filing was converted to a Chapter 7.

**E.J. "Jed" DiPaolo** has served as a director from May 1999 to December 4, 2002, then was reappointed on September 30, 2003. Mr. DiPaolo is presently up for reelection for a term that will expire in 2008. Mr. DiPaolo also serves on the Audit and Compensation Committees. Since August of 2003, Mr. DiPaolo is a consultant with Growth Capital Partners, L.P., a company engaged in investments and merchant banking. Mr. DiPaolo was the Senior Vice President, Global Business Development of Halliburton Energy Services, having had responsibility for all worldwide business development activities until his retirement in 2002. Mr. DiPaolo was employed at Halliburton Energy Services from 1976 until his retirement and held progressive positions of responsibility.

**Dewitt H. Edwards** has served as our Senior Vice President - Finance and Principal Financial Officer since April 2005. His primary responsibilities consists of all corporate financial functions including accounting, planning and SEC reporting, as well as responsibility for all administrative functions including legal, risk management and employee benefits. Prior to his employment, Mr. Edwards served as a consultant to us. He had been engaged to work on initiatives to refinance our debt and improve its overall capital structure and liquidity. Mr. Edwards was previously employed by us as our Executive Vice President from September 1998 through May 2002. Prior to that, Mr. Edwards was employed by Halliburton Energy Services for 19 years where he served in positions of increasing authority, including Mid Continent Area Manager and North America Resource Manager.

**Kevin D. Johnson** has served as our Vice President - Accounting since April 2005. Mr. Johnson previously served as our Senior Vice President - Finance since March 2003 and controller since July 1999. Prior to joining us, Mr. Johnson served as assistant controller from March 1997 through June 1999 for ITEQ, Inc., a public company, engaged in manufacturing and construction of storage tanks and industrial air filtration systems. Mr. Johnson worked for 10 years in various accounting capacities from August 1987 to January 1997 with Battle Mountain Gold Company, a public company engaged in world-wide gold mining, and prior to that, in the oilfield service sector from July 1978 to May 1987 in various capacities including corporate controller at Galveston Houston Company, a public company at that time. Prior to his employment at Galveston Houston Company, Mr. Johnson was employed by Brown and Root (KBR) where Mr. Johnson started as a systems analyst and accountant. Mr. Johnson graduated with a BBA in Accounting/Information Systems from the University of North Texas in 1975.

## COMMITTEES AND BOARD MEETINGS

As permitted by our bylaws, our board of directors has designated from its members a Compensation Committee and an Audit Committee. We do not have a standing nominating committee of the board of directors or any other committee that performs a similar function. During 2004, the board of directors held four regular meetings. During 2005, the board of directors held four regular meetings. All current directors attended 100% of such meetings held during the period in which such director served, except that Mr. Anderson was out of the country and not able to attend the November 10, 2004 meeting. In addition, the current committees of our board of directors, the composition and functions thereof and the number of meetings held in 2004 and 2005 are as set forth below:



*Compensation Committee.* Our Compensation Committee is comprised of two or more directors appointed from time to time by, and serving at the discretion of, the board of directors. Our board of directors appointed Messrs. DiPaolo and Herlin to join Mr. Anderson on the Compensation Committee effective November 12, 2003, and Mr. Herlin was designated the chairman of the committee. The Compensation Committee administers our stock option plans, and in this capacity makes all option grants or awards to employees, including executive officers, under the plans. In addition, the Compensation Committee is responsible for making recommendations to the board of directors with respect to the compensation of our chief executive officer and our other executive officers and for establishing compensation and employee benefit policies. The Compensation Committee met two times during 2004 and once during 2005. The Compensation Committee approved the Mr. Krist's new consulting agreement. See "Board Compensation Committee Report on Executive Compensation - Compensation Arrangements."

### *Consideration of Director Nominees*

We do not presently maintain a nominating committee of the board of directors. Instead, we rely on the judgment of our independent board members to identify and select qualified candidates for election to our board. Our board has determined that the establishment of a nominating committee would add to the administrative burden of our independent directors, who already serve on the Audit Committee or Compensation Committee, or both, and is unnecessary given the small size of our current board and the stability of the composition of our board. Our independent directors identify nominees to the board according to the criteria outlined below, and the board ultimately selects nominees based upon the same criteria.

Our independent directors consider the following criteria in recommending the nomination of individuals for re-election to our board:

- Record of past attendance at board of directors and committee meetings;
- Ability to contribute to a positive, focused atmosphere in the board room;
- Absence of any cause for removal from the board of directors; and
- Past contributions in service on the board of directors.

In addition, all nominees for re-election shall evidence a desire and willingness to attend future board of directors and committee meetings. All decisions regarding whether to recommend the nomination of a director for re-election is within the sole discretion of the independent members of our board.

Our independent directors consider the following criteria in recommending new nominees to the board of directors and its committees from time to time:

• Expertise and perspective needed to govern the business and strengthen and support executive management - for example: strong financial expertise, knowledge of international operations, or knowledge of the oil field services and petroleum industries.

• Sound business judgment and a sufficiently broad perspective to make meaningful contributions, under pressure if necessary.

- Interest and enthusiasm in us and a commitment to become involved in its future.
- The time and energy to meet board commitments.

• Constructive participation in discussions, with the capacity to quickly understand and evaluate complex and diverse issues.

• Dedication to the highest ethical standards.

• Supportive of management, but independent, objective, and willing to question and challenge both openly and in private exchanges.

• Willingness to anticipate and explore opportunities.

All decisions regarding whether to recommend the nomination of a new individual for election to the board of directors is within the sole discretion of the independent members of our board.

All new nominees and directors for re-election will be evaluated without regard to race, sex, age, religion, or physical disability.

### AUDIT COMMITTEE REPORT

*Audit Committee.* In 2004 and 2005, the members of the Audit Committee were Messrs. Anderson, DiPaolo, and Herlin. All members of the Audit Committee were "independent", as such term is defined in Section 121(A) of the American Stock Exchange's listing standards, at the time the members served on the Audit Committee. Messrs. Anderson, DiPaolo and Herlin currently serve on the Audit Committee. During 2004, the Audit Committee met four times. During 2005, the Audit Committee met four times. Our board of directors has adopted a written charter for the Audit Committee, and a copy of the Audit Committee charter is included as Exhibit A to this proxy statement. In accordance with the Audit Committee's charter, the Audit Committee reviews our financial reporting processes, its system of internal controls, and the audit process for monitoring compliance with laws and regulations. In addition, the committee reviews, with our auditors, the scope of the audit procedures to be applied in the conduct of the annual audit, as well as the results of that audit. Our board has determined that each of the Audit Committee members is independent, in accordance with the audit committee requirements of the American Stock Exchange. Messrs Anderson and Herlin are financial experts within the meaning of Item 401(h) of Regulation S-K promulgated by the U.S. Securities and Exchange Commission.

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2004, with our management. The committee also discussed with UHY Mann Frankfort Stein & Lipp CPAs, LLP, ("UHY"), our independent auditors for the 2004 fiscal year, the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU § 380), as modified or supplemented, and have received the written disclosures and the letter from UHY required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as modified or supplemented. The committee also discussed with UHY any issues relating to the independence of the Audit Committee. Based on the above review and discussions, the Audit Committee has recommended to the board of directors that the audited financial statements for the fiscal year ended December 31, 2004 be included in our Annual Report on Form 10-K.

Respectfully submitted,  
THE AUDIT COMMITTEE

W. Richard Anderson  
E. J. DiPaolo  
Robert S. Herlin

During 2004 and 2003, we incurred the following fees for services performed by UHY Mann Frankfort Stein and Lipp, CPA's LLP ("UHY"):



<b>Fee Type</b>	<b>2004</b>	<b>2003</b>
Audit Fees	\$ 192,000	\$ 152,000
Audit Related fees	53,000	45,300
Tax Fees	—	—
Other Fees	—	—
<b>Total Fees</b>	<b>\$ 245,000</b>	<b>\$ 197,300</b>

### ***Audit Fees***

Audit fees represent the aggregate fees for professional services rendered by UHY for the audit of our annual financial statements for the fiscal years ended December 31, 2004 and December 31, 2003, and the reviews of our financial statements included in our Forms 10-Q for all quarters of fiscal 2004 and 2003.

*Audit Related Fees.* Audit-related fees include professional services rendered by UHY for audits of our employee benefit plans.

*Tax Fees.* We use an independent consultant other than UHY to perform all tax related work.

*All Other Fees.* We paid no other fees to UHY during 2004 and 2003.

*Sarbanes-Oxley Section 404 Compliance Fees.* We use a third party firm to consult on the preparation of the Section 404 compliance.

*Pre-Approval Policies and Procedures.* The Audit Committee has established written pre-approval policies that require the approval by the Audit Committee of all services provided by UHY as the principal independent accountants and all audit services provided by other independent accountants. All of the services described above provided by UHY to us were approved in accordance with the policy.

*Work Performed by Principal Accountant's Full Time, Permanent Employees.* UHY's work on our audit was performed by UHY partners and employees.

*The Selection of Auditors.* Our Board of Directors has appointed UHY as principal independent accountants to examine our financial statements and books and records for the years ending December 31, 2004 and 2003. The appointment was made upon the recommendation of the Audit Committee. UHY has advised that neither the firm nor any member of the firm has any direct financial interest or any material indirect interest in us. Also, during at least the past three years, neither the firm nor any member of the firm has had any connection with us in the capacity of promoter, underwriter, voting trustee, director, officer or employee.

Representatives of UHY will be present at the annual meeting, will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from stockholders.

### ***Security Holder Communications***

Security holder communications intended for the board of directors or for particular directors (other than stockholder proposals submitted pursuant to Exchange Act Rule 14a-8 and communications made in connection with such proposals) may be sent in care of our corporate secretary at Boots & Coots International Well Control, Inc., 11615 N. Houston Rosslyn, Houston, Texas 77086. The Secretary will forward all such communications to the board of directors or to particular directors as directed without screening such communications.

