

BOOTS & COOTS INTERNATIONAL WELL CONTROL INC
Form 10-K
April 02, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

(MARK ONE)

ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 1-13817

BOOTS & COOTS
INTERNATIONAL WELL CONTROL, INC.
(Name of Registrant as specified in Its Charter)

DELAWARE 11-2908692
(State or Other Jurisdiction of (I.R.S. Employer Identification No.)
Incorporation or Organization)

777 POST OAK BOULEVARD, SUITE 800 77056
HOUSTON, TEXAS (Zip Code)
(Address of Principal Executive Offices)

713-621-7911
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$.00001 par value	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act: NONE

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No []

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in or any amendment to this Form 10-K [].

State the aggregate market value of the voting stock held by non-affiliates

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computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days.

The aggregate market value of such stock on March 29, 2001, based on closing sales price on that day was \$28,101,168.

The number of shares of the issuer's common stock outstanding on March 29, 2001 was 39,822,090.

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ANNUAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

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GENERAL

Boots & Coots International Well Control, Inc. (the "Company"), is a global-response oil and gas service company that specializes in responding to and controlling oil and gas well emergencies, including blowouts and well fires. In connection with such services, the Company has the capacity to supply the equipment, expertise and personnel necessary to contain the oil and hazardous materials spills and discharges associated with such oil and gas emergencies, to remediate affected sites and restore affected oil and gas wells to production. Through its participation in the proprietary insurance program WELLSURE, the Company provides lead contracting and high risk management services, under critical loss scenarios, to the program's insured clients. Additionally, the WELLSURE program designates that the Company provide certain pre-event prevention and risk mitigation services defined under the program. The Company also provides snubbing and other high risk well control management services, including pre-event planning, training and consulting services and markets oil and hazardous materials spill containment and recovery equipment and a varied line of industrial products for the oil and gas industry. In addition, the Company provides environmental remediation services to the petrochemical, chemical manufacturing and transportation industries, as well as to various state and federal agencies. Through April 2000, the Company was actively engaged in providing materials and equipment procurement, transportation and logistics services to the energy industry.

As discussed herein under Note D - Discontinued Operations included in the accompanying Consolidated Financial Statements, the decision was made in December 1999 to sell or in the alternative discontinue the Company's materials and equipment procurement, transportation and logistics services conducted through its subsidiary, ITS Supply Corporation "ITS". In April 2000, substantially all prospective operations of ITS were ceased and the majority of ITS employees were terminated.

In 1998, the Company operated in three (3) business segments: Emergency Response and Restoration, Programs and Services and Manufacturing and Distribution. The risk management business unit of IWC Services, which encompasses the WELLSURE Program and ITS were included under the business segment, Programs and Services. As a result of the December 1999 decision to sell or in the alternative discontinue ITS' business operations, the Company has determined that its risk management programs are more appropriately included with the Emergency Response and Restoration business segment. Accordingly, all business segment disclosures contained herein reflect this classification for all periods presented.

RECENT FINANCIAL DEVELOPMENTS

Prudential Subordinated Note Restructuring. On December 28, 2000, the Company finalized the restructuring of its subordinated debt with Prudential Insurance Company of America ("Prudential"). As previously disclosed, the Company had been in default under its subordinated note agreement with Prudential since the second quarter of 1999. Prudential's aggregate claims of approximately \$41,000,000 through October 24, 2000 were resolved by the Company: (i) paying \$12,000,000 cash at closing; (ii) establishing \$7,200,000 face value of new subordinated debt; (iii) issuing \$5,000,000 face value of Series E Cumulative Senior Preferred Stock; and (iv) issuing \$8,000,000 face value of Series G Cumulative Convertible Preferred Stock. All interest payments and dividends are paid in kind and deferred for two years from the date of closing. Additionally, as a component of this transaction, Prudential has received newly issued warrants to purchase 8,800,000 shares of the Company's common stock, and the Company agreed to reprice the existing common stock purchase warrants held by Prudential. The Company has the right to repurchase, at a discount to face value, all of its debt, stock and warrants issued to Prudential for an agreed

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period.

Sale of Baylor. On September 28, 2000, the Company announced that it closed the sale of the assets of the Baylor Company and its subsidiaries to National Oilwell, Inc. The proceeds from the sale were approximately \$29,000,000 cash, of which \$13,000,000 was paid to Comerica Bank-Texas, the Company's primary senior secured lender at the time, as settlement of obligations due to them. The results of operations of Baylor are presented herein as discontinued operations for all periods presented.

Recent Financing Activity. During the year ended December 31, 2000, the Company received approximately \$8,700,000 in funds from the purchase of participation interests in its senior secured credit facility with Comerica. In connection with this financing, the Company issued 147,058 shares of common stock and warrants representing the right to purchase an aggregate of 8,729,985 shares of common stock of the Company to the participation interest holders and warrants to purchase an aggregate of 3,625,000 shares of common stock to the investment group that arranged the financing. The warrants have a term of five years and can be exercised by the payment of cash in the amount of \$0.625 per

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share as to 8,729,985 shares and \$0.75 per share as to 3,625,000 shares of common stock, or by relinquishing a number of shares subject to the warrant with a market value equal to the aggregate exercise price of the portion of the warrant being exercised. On December 28, 2000, \$7,729,985 of the participation interest, plus \$757,315 in accrued interest thereon, was exchanged for 89,117 shares of Series H Cumulative Senior Preferred Stock in the Company. The remaining \$1,000,000 of the participation interest was outstanding as senior secured debt as of December 31, 2000.

ITS Bankruptcy Proceedings. As a result of ongoing operating losses, a shortage of working capital and the absence of a viable purchaser for ITS Supply Corporation ("ITS") operations, on May 18, 2000, ITS filed in Corpus Christi, Texas for protection under Chapter XI of the U. S. Bankruptcy Code. ITS is now proceeding to liquidate its assets and liabilities pursuant to Chapter 7 of Title 11. At the time of the filing, ITS had total liabilities of approximately \$6,900,000 and tangible assets of approximately \$950,000. The Company has an outstanding subordinated guaranty on ITS debt of approximately \$1,500,000. This guaranty is subordinated to any senior debt and the obligation to respond is forestalled contractually so long as senior debt is outstanding. A judgment against the Company has been entered by a state district court, and that judgment is now on appeal. The Company does not believe the guaranty will be enforceable in accordance with its terms. Further, the Company, in consultation with its counsel, believes that it is not probable that any creditors of ITS may successfully assert and realize collection against the Company.

Going Concern. The accompanying financial statements for the year ended December 31, 2000, have been prepared on the basis of the Company continuing as a going concern. As discussed in Note A to the accompanying consolidated financial statements, significant uncertainties exist as to the ability of the Company to attain profitable operations and access working capital. The audit opinion issued by Arthur Andersen LLP for the year ended December 31, 2000, includes an explanatory fourth paragraph because of substantial doubt regarding the Company's ability to continue as a going concern.

HISTORY OF COMPANY

Boots & Coots International Well Control, Inc. (the "Company") was incorporated in Delaware in April 1988, remaining largely inactive until

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entering into a business combination with IWC Services, Inc., a Texas corporation ("IWC Services") on July 29, 1997. In the transaction, the stockholders of IWC Services became the holders of approximately 93% of the outstanding shares of common stock of the Company and the management of IWC Services assumed management of the Company. IWC Services is a global-response oil and gas well control service company that specializes in responding to and controlling oil and gas well emergencies, including blowouts and well fires. In addition, IWC Services provides snubbing and other non-critical well control services. IWC Services was organized in June 1995 by six former key employees of the Red Adair Company.

Following the IWC Services transaction, the Company engaged in a series of complementary business acquisitions. On July 31, 1997, the Company completed the acquisition of substantially all of the operating assets of Boots & Coots, L.P., a Colorado limited partnership ("Boots & Coots LP"), and the stock of its subsidiary corporations, Boots & Coots Overseas, Ltd., and Boots & Coots de Venezuela, S.A. Boots & Coots LP and its subsidiaries were engaged in oil well fire fighting, snubbing and blowout control services.

Boots & Coots LP was organized by Boots Hansen and Coots Matthews, two former employees of the Red Adair Company who, like the founders of IWC Services, left that firm to form an independent company, which was a primary competitor of IWC Services. As a consequence of the acquisition of Boots & Coots, the Company became a leader in the worldwide oil well firefighting and blowout control industry, reuniting many of the former employees of the Red Adair Company.

On September 25, 1997, the Company completed the acquisition of ABASCO, Inc. ("ABASCO") which had acquired the operating assets of ITS Environmental, a division of International Tool & Supply Company, a recognized leader in the design and manufacture of a comprehensive line of rapid-response oil and chemical spill containment and reclamation equipment and products since 1975. In response to depressed downstream industry conditions existing for a significant part of 1999 and 2000, and limitations on capital, the Company has substantially reduced but not discontinued the operations of ABASCO, including the closure and consolidation of facilities and reduction in workforce.

On January 2, 1998, the Company completed the acquisition of all of the capital stock of ITS Supply Corporation ("ITS"). Through April 2000, ITS operated as an ISO 9002 certified materials and equipment procurement, transportation and logistics company serving the energy industry with offices in Houston, Venezuela, Peru, Dubai (UAE) and the United Kingdom. As a result of ongoing operating losses, a shortage of working capital and the absence of a currently identified viable purchaser for ITS' operations, on May 18, 2000, ITS filed in Corpus Christi, Texas, for protection under Chapter XI of the U. S. Bankruptcy Code.

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On February 20, 1998, the Company completed the acquisition of Boots & Coots Special Services, Inc. f/k/a Code 3, Inc. ("B & C Special Services"). B & C Special Services provides containment and remediation of hazardous material and oil spills for the railroad, transportation and shipping industries, as well as various state and federal governmental agencies, and specializes in the transfer of hazardous materials and high and low pressure liquids and industrial fire fighting. B & C Special Services also provides in-plant remedial plan implementation, hazardous waste management, petroleum tank management, industrial hygiene, environmental and occupational, health and safety services. During 1999 and continuing in 2000, cost reduction steps were initiated that included workforce level reductions and the closure of field offices located in Harlingen, El Paso, Laredo, Denver,

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Garland, Beaumont and Omaha.

On July 23, 1998, the Company completed the acquisition of Baylor Company ("Baylor"). As a result of the Company's financial difficulties, substantially all of the assets of Baylor were sold in September 2000. Baylor, headquartered in Sugar Land, Texas, manufactured and marketed a varied line of industrial products, many of them proprietary, for the drilling, marine and power generation industries.

Effective November 4, 1998, the Company completed the acquisition, through B & C Special Services, of HAZ-TECH Environmental Services, Inc. ("HAZ-TECH"). HAZ-TECH provided a complete range of emergency prevention and response services, including hazardous materials and waste management, OSHA personnel training and environmental site audits, surface and groundwater hydrology, bio remediation and pond dewatering, and water treatment to chemical manufacturing, railroad and truck transportation companies in Texas, Louisiana, Oklahoma and Arkansas.

Halliburton Alliance. The Company conducts business in a global strategic alliance with the Halliburton Energy Services division of Halliburton Company. The alliance operates under the name "WELLCALL(SM)" and draws on the expertise and abilities of both companies to offer a total well control solution for oil and gas producers worldwide. The Halliburton Alliance provides a complete range of well control services including pre-event troubleshooting and contingency planning, snubbing, pumping, blowout control, debris removal, fire fighting, relief and directional well planning, and other specialized services.

Business Strategy. As a result of defaults under the Company's Senior Secured Credit Facility and Subordinated Note and Warrant Purchase and operating losses sustained during 1999 and continuing in 2000, the Company has been forced to operate with a minimum of working capital. As a result, the Company curtailed its business expansion program, discontinued the operations of ITS, sold Baylor Company, and reduced the operations of ABASCO and focused its efforts on its remaining two core business segments, Emergency Response and Restoration and Product Distribution. Financial information with respect to the business segments is presented in Footnote L to the Company's Consolidated Financial Statements. Subject to capital availability, the Company intends to expand the Halliburton Alliance and the WELLSURE program, continue to integrate the businesses of Boots & Coots, ABASCO, B & C Special Services, and HAZ-TECH, increase the geographical scope of its training and consulting programs, and establish additional Company-owned or operated Fire Stations. Like the Company owned Fire Stations in Houston, Texas, and Anaco, Venezuela, the industry supported Fire Station on the North Slope of Alaska and the Company operated Fire Station in Algeria, the proposed Company Fire Stations would include the equipment required to respond to a well blowout or fire. Subject to capital availability, the Company intends to build upon its demonstrated strengths in high-risk management while increasing revenues from its engineering, equipment sales, environmental containment and remediation services and non-critical events. Recognizing that the well control services business is a finite market with services dependent upon the occurrence of blowouts which cannot be reasonably predicted, the Company's business strategy is to market its pre-event and engineering services on a global basis and expand its range of services to grow market share within a diversified and expanded revenue base.

Additionally, subject to available capital, the Company hopes to expand its service capabilities through a combination of internal growth, additional acquisitions, joint ventures and strategic alliances. Because of the fragmented nature of segments within the oil and gas services industry, the Company believes a number of attractive acquisition opportunities exist in the pressure control, emergency response, high-risk management and environmental services segments of the business. The oil and gas services business in general, and the emergency response and environmental remediation segments in particular, are

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characterized by a small number of dominant global competitors and a significant number of locally oriented businesses, many of which tend to be viable alliance partners.

Executive Offices. The Company's principal executive office is located at 777 Post Oak Boulevard, Suite 800, Houston, Texas, 77056, telephone (713) 621-7911.

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THE EMERGENCY RESPONSE SEGMENT OF THE OIL AND GAS SERVICE INDUSTRY

History. The emergency response segment of the oil and gas services industry traces its roots to the late 1930's when Myron Kinley organized the Kinley Company, the first oil and gas well firefighting specialty company. Shortly after organizing the Kinley Company, Mr. Kinley took on an assistant named Red Adair who learned the firefighting business under Mr. Kinley's supervision and remained with the Kinley Company until Mr. Kinley's retirement. When Mr. Kinley retired in the late 1950's, Mr. Adair organized the Red Adair Company and subsequently hired Boots Hansen, Coots Matthews and Raymond Henry as members of his professional firefighting staff. Mr. Adair later added Richard Hatteberg, Danny Clayton, Brian Krause, Mike Foreman and Juan Moran to his staff, and the international reputation of the Red Adair Company grew to the point where it was a subject of popular films and the dominant competitor in the industry. Boots Hansen and Coots Matthews remained with the Red Adair Company until 1978 when they split off to organize Boots & Coots, an independent firefighting, snubbing and blowout control company.

Historically, the well control emergency response segment of the oil and gas services industry has been reactive, rather than proactive, and a small number of companies have dominated the market. As a result, if an operator in Indonesia, for example, experienced a well blowout and fire, he would likely call a well control emergency response company in Houston that would take the following steps:

- Immediately dispatch a control team to the well location to assess the damage, supervise debris removal, local equipment mobilization and site preparation;
- Gather and analyze the available data, including drilling history, geology, availability of support equipment, personnel, water supplies and ancillary firefighting resources;
- Develop or implement a detailed fire suppression and well-control plan;
- Mobilize additional well-control and firefighting equipment in Houston;
- Transport equipment by air freight from Houston to the blowout location;
- Extinguish the fire and bring the well under control; and
- Transport the control team and equipment back to Houston.

On a typical blowout, debris removal, fire suppression and well control can require several weeks of intense effort and consume millions of dollars, including several hundred thousand dollars in air freight costs alone.

The 1990's have been a period of rapid change in the oil and gas well control and firefighting business. The hundreds of oil well fires that were started by Iraqi troops during their retreat from Kuwait spurred the development of new firefighting techniques and tools that have become industry standards.

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Moreover, after extinguishing the Kuwait fires, the entrepreneurs who created the oil and gas well firefighting industry, including Red Adair, Boots Hansen and Coots Matthews retired, leaving the Company's senior staff as the most experienced active oil and gas well firefighters in the world. At present, the principal competitors in the oil and gas well firefighting business are the Company, Wild Well Control, Inc., and Cudd Pressure Control, Inc.

Trends. The increased recognition of the importance of risk mitigation services, training, environmental protection and emergency preparedness, are having a profound impact on the emergency response segment of the oil and gas services industry. Instead of waiting for a blowout, fire or other disaster to occur, both major and independent oil producers are coming to the Company for proactive preparedness and incident prevention programs. These requests, together with pre-event consultation on matters relating to well control training, blowout contingency planning, on-site safety inspections and formal fire drills, are expanding the market for the Company's engineering unit.

Decreasing availability of financial capacity in the re-insurance markets are causing underwriting syndicated to seek significant renewal rate increases and higher quality risks in the "Control of Well" segment of the energy insurance market. The Company believes these factors enhance the viability of proven alternative risk transfer programs such as WELLSURE, a proprietary insurance program in which the Company is the provider of both pre-event services and loss management.

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Volatility of Firefighting Revenues. The market for oil and gas well firefighting and blowout control services is highly volatile due to factors beyond the control of the Company. While the demand for firefighting and blowout control services ordinarily follows predictable trends in the oil and gas industry, extraordinary events such as the Bay Marchand and Piper Alpha disasters have historically occurred only every four to six years. Wars, acts of terrorism and other unpredictable factors may increase the need for oil and gas well firefighting and blowout control services from time to time. As a result, the Company can expect to experience large fluctuations in its revenues from oil and gas well firefighting and blowout control services. While the Company believes that its acquisitions of ABASCO, B & C Special Services, HAZ-TECH and anticipated revenues from the WELLSURE program and from the Company's consulting, and industrial and marine firefighting services will help to provide an expanded and more predictable revenue and earnings base in the future, there can be no assurance that the Company will be successful in further developing these acquired businesses and added services. Accordingly, the Company expects that its revenues and operating performance may vary considerably from year to year for the foreseeable future.

PRODUCTS AND SERVICES PROVIDED BY THE COMPANY

The Company is a global-response oil and gas service company that specializes in responding to and controlling oil and gas well emergencies, including blowouts and well fires. In connection with such services, the Company has the capacity to supply the equipment, expertise and personnel necessary to contain the oil and hazardous materials spills and discharges associated with such oil and gas well emergencies, to remediate affected sites and to restore affected oil and gas wells to production. In addition to providing emergency response services, the Company provides snubbing and other high risk management well control services, including pre-event planning, training and consulting services. The Company also markets oil and hazardous materials spill containment and recovery equipment and a varied line of industrial products for the oil and gas industry. The Company provides environmental remediation services to the petrochemical, chemical manufacturing and transportation industries, as well as

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to various state and federal agencies. As discussed above, the Company through its ITS operating subsidiary had provided materials and equipment procurement, transportation and logistics services to the energy industry. Operations were substantially curtailed in April 2000 and on May 18, 2000 ITS filed, in Corpus Christi, Texas, for protection under Chapter XI of the U.S. Bankruptcy Code and has subsequently proceeded to liquidate its assets and liabilities pursuant to Chapter 7 of Title XI. During 2000, the Company also sold Baylor Company, a manufacturer of drilling, marine and power generation equipment and substantially reduced the operations of ABASCO.

The Company's principal products and services for its two ongoing principal business segments include:

Emergency Response and Restoration

The Emergency Response and Restoration business segment includes the following operating subsidiaries of the Company: IWC Services including its risk management business unit, B & C Special Services.

Well Control. This service segment is divided into two distinct levels: (1) "Critical Event" response is ordinarily reserved for well control projects where hydrocarbons are escaping from a well bore, regardless of whether a fire has occurred. (2) "Non-critical Event" response, on the other hand, is intended for the more common sub-surface operating problems that do not involve escaping hydrocarbons.

Critical Events. Critical Events frequently result in explosive fires, the loss of life, the destruction of drilling and production facilities, substantial environmental damage and the loss of hundreds of thousands of dollars per day in production revenue. Since Critical Events ordinarily arise from equipment failures or human error, it is impossible to accurately predict the timing or scope of the Company's Critical Event work. Notwithstanding the foregoing, a Critical Event of catastrophic proportions could result in significant revenues to the Company in the year of the incident. The Company's professional firefighting staff has over 225 years of aggregate industry experience in responding to Critical Events, oilwell fires and blowouts.

Non-critical Events. Non-critical Events frequently occur in connection with workover operations or the drilling of new wells into high pressure reservoirs. In most Non-critical Events, the blowout prevention equipment and other safety systems on the drilling rig function according to design and the Company is then called upon to supervise and assist in the well control effort so that drilling operations can resume as promptly as safety permits. While Non-critical Events do not ordinarily have the revenue impact of a Critical Event, they are much more common and predictable. Non-critical Events can escalate into Critical Events.

Firefighting Equipment Rentals. This service includes the rental of specialty well control and firefighting equipment by the Company primarily for use in conjunction with Critical Events. Such equipment includes, but is not limited to, firefighting pumps, pipe racks, Athey wagons, pipe cutters, crimping tools and deluge safety systems. The Company charges this equipment out on a per diem basis. Past experience indicates that rentals can be expected to average approximately 40% of the revenues associated with a Critical Event.

WELLSURE(R) Program. On February 6, 1998, the Company announced the formation of an alliance with Global Special Risks, Inc., a managing general insurance agent located in Houston, Texas, and New Orleans, Louisiana. The alliance offers oil and gas exploration production companies, through retail

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insurance brokers, a new program known as "WELLSURE(R)," which combines traditional well control and blowout insurance with the Company's post-event response services and well control preventative services including company-wide and/or well specific contingency planning, personnel training, safety inspections and engineering consultation. Insurance provided under WELLSURE(R) has been arranged with leading London insurance underwriters. WELLSURE(R) program participants will be provided with the full benefit of having the Company as a safety and prevention partner. In the event of well blowouts, the Company will serve as the integrated emergency response service provider, as well as function as lead contractor and project manager for control and restoration of wells covered under the program.

Firefighting Equipment Sales and Service. This service line involves the sale of complete firefighting equipment packages, together with maintenance, monitoring, updating of equipment and ongoing consulting services. A typical example of this service line is the industry supported Emergency Response Center that the Company has established on the North Slope of Alaska or the Emergency Response Center recently established in Algeria. The Company has also entered into agreements with renewal clauses to provide ongoing consulting services relating to the Emergency Response Centers, including equipment sales, training, contingency planning, safety inspections and emergency response drills.

Industrial and Marine Firefighting. This service is divided into two distinct elements: pre-event consulting and Critical Event management. The pre-event services offered in the industrial and marine firefighting business include complete on-site inspection services, safety audits and pre-event planning. Based on these pre-event services, the Company can recommend the equipment, facilities and manpower resources that a client should have available in order to effectively respond to a fire. The Company can also consult with the client to ensure that the equipment and services required by the client will be available when needed. If a Critical Event subsequently occurs, the Company is ready to respond at a client's facility with experienced firefighters and auxiliary equipment.

Oil and Chemical Spill Containment and Reclamation. B & C Special Services provides containment and remediation of hazardous material and oil spills for the railroad, transportation and shipping industries, as well as various state and federal governmental agencies. B & C Special Services also specializes in the transfer of hazardous materials and high and low pressure liquids and industrial fire fighting and provides in-plant remedial plan implementation, hazardous waste management, petroleum tank management, industrial hygiene, environmental and occupational, health and safety services.

Consulting; Drilling Engineering. The Company provides through its highly specialized in-house engineering staff, and the Halliburton Energy Services division, engineering services for such areas as: (1) planning and design of relief well drilling (trajectory planning, directional control and equipment specifications, and on-site supervision of the drilling operations), (2) planning and design of production facilities which are susceptible to well capping or other control procedures, and (3) mechanical and computer aided designs for well control equipment.

Consulting; Inspections. A cornerstone of the Company's strategy of providing preventive well control services involves on-site inspection services for drilling and work over rigs, drilling and production platforms, and field production facilities. These inspection services, performed by the Company, are offered as a standard option in Halliburton's field service programs.

Consulting; Training. The Company provides specialized training in well control procedures for drilling, exploration and production personnel. To date such training programs have been provided for both U.S. and international operators. The Company's training services are offered in conjunction with

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ongoing educational programs sponsored by Halliburton. The Company believes the training segment of its business offers considerable potential for growth.

Strategic Event Planning (S.T.E.P.). A key element of the services offered by the Halliburton Alliance is a strategic and tactical planning process addressing action steps, resources and equipment necessary for an operator to control a blowout. This planning process incorporates organizational structures, action plans, specifications, people and equipment mobilization plans with engineering details for well firefighting, capping, relief well and kill operations. It also addresses optimal recovery of well production status, insurance recovery, public information and relations and safety/environmental issues. While the S.T.E.P. program includes a standardized package of services, it is easily modified to suit the particular needs of a specific client.

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Regional Emergency Response Centers. A number of major oil and gas producers have come to the realization that servicing the worldwide firefighting and well control market from Houston is inefficient: the response time is too long and the cost of transporting equipment by air freight is prohibitive. As a result, the Company has established and maintains an industry supported "Fire Station" on the North Slope of Alaska. Under the terms of the agreement, the Company has sold to a consortium of producers the equipment required to respond to a blowout or oil or gas well fire, and has agreed to maintain the equipment and conduct on-site safety inspections and emergency response drills. The Company also currently has Emergency Response Centers in Houston, Texas, Anaco, Venezuela, and Algeria. The Company intends to deploy at least one Emergency Response Center per year over a five-year period. The equipment for these proposed Emergency Response Centers would either be purchased by the Company for its own account, purchased by a national oil company or purchased by a consortium of local producers who would then contract with the Company for maintenance and consulting services. It is believed these Emergency Response Centers, once established, would place the Halliburton Alliance in a unique competitive position within the industry and allow the alliance to gain market share by reducing the mobilization time and costs traditionally involved in controlling major blowout events. These Emergency Response Centers would be established subject to the availability of capital or the specific economic commitment of a consortium of local producers as referenced above.

Programs and Services

Previously, the Programs and Services business segment included the following operating subsidiaries and business units of the Company: the risk management business unit of IWC Services, which encompasses the WELLSURE Program, and ITS. As a result of the December 1999 decision to sell or in the alternative, discontinue ITS' business operations, an assessment has been made that the Company's risk management programs are more appropriately included with the Company's Emergency Response and Restoration business segment. Accordingly, business segment disclosures contained herein reflect this classification for all periods presented.

Supply, Transportation and Logistics. Through April 2000, ITS operated as an ISO 9002 certified and provided material and equipment procurement, transportation and logistics services to the energy industry worldwide. ITS also served as a distributor in Venezuela and Peru of artificial lift oil recovery systems. As discussed in Note D, Discontinued Operations included in the accompanying Consolidated Financial Statements, the decision was made in December 1999 to sell or in the alternative discontinue the Company's materials and equipment procurement, transportation and logistics services conducted through ITS. In April 2000, substantially all prospective operations were ceased and the majority of employees were terminated and on May 18, 2000, ITS filed, in

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Corpus Christi, Texas, for protection under Chapter XI of the U.S. Bankruptcy Code and has subsequently proceeded to liquidate its assets and liabilities pursuant to Chapter 7 of Title XI.

Manufacturing and Distribution

The Manufacturing and Distribution business segment includes the following operating subsidiaries or business units of the Company: Baylor and ABASCO.

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

ABASCO. The Company's ABASCO unit has been a leader in the design and manufacture of a comprehensive line of rapid response oil and chemical spill containment and reclamation equipment and products, including mechanical skimmers, containment booms and boom reels, dispersant sprayers, dispersal agents, absorbents, response vessels, oil and chemical spill industrial products, spill response packages, oil and chemical spill ancillary products and waste oil recovery and reclamation products. In response to depressed downstream industry conditions existing for a significant part of 1999 and limitations on capital, the Company has substantially reduced, but not discontinued, the operations of ABASCO, including the closure and consolidation of facilities and reduction in workforce.

DEPENDENCE UPON CUSTOMERS

The Company is not materially dependent upon a single or a few customers, although one or a few customers may represent a material amount of business for a limited period as a result of the unpredictable demand for well control and firefighting services. The emergency response business is by nature episodic and unpredictable. A customer that accounted for a material amount of business as a result of an oil well blow-out or similar emergency may not account for a material amount of business after the emergency is over.

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HALLIBURTON ALLIANCE

In response to ongoing changes in the emergency response segment of the oil and gas service industry, the Company entered into a global strategic alliance in 1995 with Halliburton Energy Services. Halliburton is widely recognized as an industry leader in the pumping, cementing, snubbing, production enhancement, coiled tubing and related services segment of the oil field services industry. This alliance, WELLCALL(SM), draws on the expertise and abilities of both companies to offer a total well control solution for oil and gas producers worldwide. The Halliburton Alliance provides a complete range of well control services including pre-event troubleshooting and contingency planning, snubbing, pumping, blowout control, debris removal, firefighting, relief and directional well planning and other specialized services. The specific benefits that WELLCALL(SM) provides to an operator include:

- Quick response with a global logistics system supported by an international communications network that operates around the clock, seven days a week;
- A full-time team of experienced well control specialists that are dedicated to safety;

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- Specialized equipment design, rental, and sales;
- Contingency planning consultation where WELLCALL(SM) specialists meet with customers, identify potential problems, and help develop a comprehensive contingency plan; and
- A single-point contact to activate a coordinated total response to well control needs.

Operators contracting with WELLCALL(SM) receive a Strategic Event Plan, or S.T.E.P., a comprehensive contingency plan for well control that is region-specific, reservoir-specific, site-specific and well-specific. The S.T.E.P. plan provides the operator with a written, comprehensive and coordinated action plan that incorporates historical data, pre-planned call outs of Company and Halliburton personnel, pre-planned call outs of necessary equipment and logistical support to minimize response time and coordinate the entire well control effort. Thereafter, in the event of a blowout, WELLCALL(SM) provides the worldwide engineering and well control equipment capabilities of Halliburton and the firefighting expertise of the Company through an integrated contract with the operator.

As a result of the Halliburton Alliance, the Company is directly involved in Halliburton's well control projects that require firefighting and Risk Management expertise, Halliburton is a primary service vendor to the Company and the Company has exclusive rights to use certain firefighting technologies developed by Halliburton. It is anticipated that future Company-owned Fire Stations, if developed, will be established at existing Halliburton facilities, such as the recent Algerian Fire Station, and that maintenance of the Fire Station equipment will be supported by Halliburton employees. The Halliburton Alliance also gives the Company access to Halliburton's global communications, credit and currency management systems, capabilities that could prove invaluable in connection with the Company's international operations.

Consistent with the Halliburton Alliance, the Company's focus has evolved to meet its clients' needs in a global theater of operations. With the increased emphasis by operators on operating efficiencies and outsourcing many engineering services, the Company has developed a proactive menu of services to meet their needs. These services emphasize pre-event planning and training to minimize the likelihood of a blowout and minimize damages in the event of an actual blowout. The Company provides comprehensive advance training, readiness, preparation, inspections and mobilization drills which allow client companies to pursue every possible preventive measure and to react in the most cohesive manner possible when an event occurs. The Halliburton Alliance stresses the importance of safety, environmental protection and cost control, along with asset protection and liability minimization.

The agreement documenting the alliance between the Company and Halliburton (the "Alliance Agreement") provided that it would remain in effect for an indefinite period of time and could be terminated prior to September 15, 2005, only for cause, or by mutual agreement between the parties. Under the Alliance Agreement, cause for termination was limited to (i) a fundamental breach of the Alliance Agreement, (ii) a change in the business circumstances of either party, (iii) the failure of the Alliance to generate economically viable business, or (iv) the failure of either party to engage in good faith dealing. On April 15, 1999, in connection with a \$5,000,000 purchase by Halliburton of the Company's Series A Cumulative Senior Preferred Stock, the Company and Halliburton entered into an expanded Alliance Agreement which effectively expanded this alliance relationship. While the Company considers its relationship with Halliburton to be good and strives to maintain productive communication with its chief Alliance partner, there can be no assurance that the Alliance Agreement will not be terminated by Halliburton. The termination of the Alliance Agreement could have a material adverse effect on the Company's future operating performance.

REGULATION

The operations of the Company are affected by numerous federal, state, and local laws and regulations relating, among other things, to workplace health and safety and the protection of the environment. The technical requirements of these laws and regulations are becoming increasingly complex and stringent, and compliance is becoming increasingly difficult and expensive. However, the Company does not believe that compliance with current laws and regulations is likely to have a material adverse effect on the Company's business or financial statements. Nevertheless, the Company is obligated to exercise prudent judgment and reasonable care at all times and the failure to do so could result in liability under any number of laws and regulations .

Certain environmental laws provide for "strict liability" for remediation of spills and releases of hazardous substances and some provide liability for damages to natural resources or threats to public health and safety. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties, and criminal prosecution. It is possible that changes in the environmental laws and enforcement policies thereunder, or claims for damages to persons, property, natural resources, or the environment could result in substantial costs and liabilities to the Company. The Company's insurance policies provide liability coverage for sudden and accidental occurrences of pollution and/or clean-up and containment of the foregoing in amounts which the Company believes are comparable to companies in the industry. To the date hereof, the Company has not been subject to any fines or penalties for violations of governmental or environmental regulations. There have been no material capital expenditure requirements made to date to comply with environmental regulations.

RESEARCH AND DEVELOPMENT

The Company is not directly involved in activities that will require the expenditure of substantial sums on research and development. The Company does, however, as a result of the Halliburton Alliance, benefit from the ongoing research and development activities of Halliburton to the extent that new Halliburton technologies are or may be useful in connection with the Company's business.

COMPETITION

The emergency response segment of the oil and gas services business is a rapidly evolving field in which developments are expected to continue at a rapid pace. The Company believes that the Halliburton Alliance, the WELLSURE(R) program, and its acquisitions of Boots & Coots, ABASCO, B & C Special Services, and HAZ-TECH has strengthened its competitive position in the industry by expanding the scope of services that the Company offers to its customers. However, the Company's ability to compete depends upon, among other factors capital availability, increasing industry awareness of the variety of services the Company offers, expanding the Company's network of Fire Stations and further expanding the breadth of its available services. Competition from other emergency response companies, some of which may have greater financial resources than the Company, is intense and is expected to increase as the industry undergoes additional anticipated change. The Company's competitors may also succeed in developing new techniques, products and services that are more effective than any that have been or are being developed by the Company or that render the Company's techniques, products and services obsolete or noncompetitive. The Company's competitors may also succeed in obtaining patent protection or other intellectual property rights that might hinder the Company's

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ability to develop, produce or sell competitive products or the specialized equipment used in its business.

EMPLOYEES

As of March 9, 2001, the Company and its operating subsidiaries collectively had 119 full-time employees, and 77 part-time personnel, who are available as needed for emergency response projects. In addition, the Company has several part-time consultants and also employs part-time contract personnel who remain on-call for certain emergency response projects. The Company is not subject to any collective bargaining agreements and considers its relations with its employees to be good.

OPERATING HAZARDS; LIABILITY INSURANCE COVERAGE

The Company's operations involve ultra-hazardous activities that involve an extraordinarily high degree of risk. Such operations are subject to accidents resulting in personal injury and the loss of life or property, environmental mishaps and mechanical failures, and litigation arising from such events may result in the Company being named a defendant in lawsuits asserting large claims. The Company may be held liable in certain circumstances, including if it fails to exercise reasonable care in connection with its activities, and it may also be liable for injuries to its agents, employees and contractors who are acting within the course and scope of their duties. The Company and its subsidiaries presently maintain liability insurance coverage with aggregate policy limits which are believed to be adequate for their respective operations. However, it is generally considered economically unfeasible in the oil and gas service industry to maintain insurance sufficient to cover large claims.

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Accordingly, there can be no assurance that the Company's insurance will be sufficient or effective under all circumstances or against all hazards to which the Company may be subject. A successful claim for which the Company is not fully insured could have a material adverse effect on the Company. No assurance can be given that the Company will not be subject to future claims in excess of the amount of insurance coverage which the Company deems appropriate and feasible to maintain.

RELIANCE UPON OFFICERS, DIRECTORS AND KEY EMPLOYEES

The Company's emergency response services require highly specialized skills. Because of the unique nature of the industry and the small number of persons who possess the requisite skills and experience, the Company is highly dependent upon the personal efforts and abilities of its officers, directors and key employees. In seeking qualified personnel, the Company will be required to compete with companies having greater financial and other resources than the Company. Since the future success of the Company will be dependent upon its ability to attract and retain qualified personnel, the inability to do so, or the loss of personnel, could have a material adverse impact on the Company's business. The Company has considered obtaining key man insurance on a selected basis to partially offset the risk of loss of personnel, however, there is no assurance that such insurance could be obtained or would be available at a reasonable cost.

CONTRACTUAL OBLIGATIONS TO CUSTOMERS; INDEMNIFICATION

The Company customarily enters into service contracts with its customers which frequently contain provisions that hold the Company liable for various losses or liabilities incurred by the customer in connection with the activities of the Company, including, without limitation, losses and liabilities relating

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to claims by third parties, damage to property, violation of governmental laws, regulations or orders, injury or death to persons, and pollution or contamination caused by substances in the Company's possession or control. The Company may be responsible for any such losses or liabilities caused by contractors retained by the Company in connection with the provision of its services. In addition, such contracts generally require the Company, its employees, agents and contractors to comply with all applicable laws, rules and regulations (which may include the laws, rules and regulations of various foreign jurisdictions) and to provide sufficient training and educational programs to such persons in order to enable them to comply with applicable laws, rules and regulations. Consequently, the Company may be exposed to substantial liabilities in connection with its services. In the case of emergency response services, the Company frequently enters into agreements with customers which limit the Company's exposure to liability and/or require the customer to indemnify the Company for losses or liabilities incurred by the Company in connection with such services, except in the case of gross negligence or willful misconduct by the Company. There can be no assurance, however, that such contractual provisions limiting the liability of the Company will be enforceable in whole or in part under applicable law.

ITEM 2. DESCRIPTION OF PROPERTIES.

The Company leases a 39,000 square foot office at 777 Post Oak Blvd., Houston, Texas, from an unaffiliated landlord through August 2005 at a monthly rental of \$58,000. In February 2000, the Company subleased approximately 25% of this office space on substantially similar terms and conditions as the primary lease. The Company leases an 11,000 square foot Emergency Response Center facility in Anaco, Venezuela, for a monthly rental of \$2,500. The Company owns a facility in northwest Houston, Texas, at 11615 N. Houston Rosslyn Road, that includes approximately 2 acres of land, a 4,000 square foot office building and a 12,000 square foot manufacturing and warehouse building. The Company leases a 7,000 square foot office in the Halliburton Center, Houston, Texas. This space is rented from an unaffiliated landlord through May 2002 for an average monthly rental of \$7,000, and is subleased on substantially the same terms. The Company's ABASCO business unit leased a 61,500 square foot office and warehouse facility in northwest Houston, Texas, through October 31, 2003 at a monthly rental of \$18,495. This facility was closed in December 1999 and ABASCO was released from the lease in June 2000. The Company's B & C Special Services business unit leases a 10,000 square foot office and equipment storage facility in southeast Houston, Texas, through December 31, 2003 at a monthly rental of \$11,547. Additionally, the Company has leased office and equipment storage facilities in various other cities within the United States, Venezuela, and Peru. The future commitments on these additional leases are immaterial. The Company believes that these facilities will be adequate for its anticipated needs.

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ITEM 3. LEGAL PROCEEDINGS

The Company is involved in or threatened with various legal proceedings from time to time arising in the ordinary course of business. Additionally, the Company's liquidity problems and loan covenant defaults adversely impacted the Company's ability to pay certain vendors on a timely basis. As a consequence, a number of these vendors filed lawsuits against the Company and some have obtained judgments for the amount of their claims, plus costs. The Company has retained a third party to negotiate settlements of some of these claims and is actively engaged in defending or resolving others. The Company expects that it will be able to resolve these claims in an orderly fashion and does not believe that these suits or judgments or any liabilities resulting from any such current proceedings will have a material adverse effect on its operations or financial

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position. However, the Company's business, financial performance and prospects could be adversely affected if it is unable to adequately defend, pay or settle its accounts, including as a consequence of efforts to enforce existing or future judgments

In May of 2000, the Company's subsidiary ITS Supply Corporation ("ITS") filed in Corpus Christi, Texas for protection under Chapter 11 of the U.S. Bankruptcy Code. ITS is now proceeding to liquidate its assets and liabilities pursuant to Chapter 7 of Title 11. At the time of the filing, ITS had total liabilities of approximately \$6,900,000 and tangible assets of approximately \$950,000. The Company has an outstanding subordinated guaranty on ITS debt of approximately \$1,500,000. This guaranty is subordinated to any senior debt and the obligation to respond is forestalled contractually so long as senior debt is outstanding. A judgment against the Company has been entered by a state district court, and that judgment is now on appeal. The Company does not believe the guaranty will be enforceable in accordance with its terms. Further, the Company, in consultation with its counsel, believes that it is not probable that any creditors of ITS may successfully assert and realize collection against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On October 25, 2000, the Company convened its annual meeting of the stockholders in Houston, Texas. The meeting was subsequently adjourned to November 6, 2000, in light of the Company's announcement of an agreement in principle to restructure the Prudential subordinated debt. The matters voted on at the meeting were: (1) the election of eight directors of the Company into 3 classes, each serving for a staggered term from one to three years; (2) amending the Certificate of Incorporation of the Company to (i) increase the authorized capital stock of the Company to 125,000,000 shares of common stock, and (ii) repeal provisions of the Certificate of Incorporation that prohibit the issuance of common stock and preferred stock to directors, officers and 10% or greater shareholders; and (3) to approve the Company's 2000 Long-Term Incentive Plan.

The voting was as follows for the election of directors:

	FOR	WITHHELD	ABSTAINING
Larry H. Ramming	33,299,530	2,701,530	--
Thomas L. Easley	33,423,985	2,577,075	--
E.J. "Jed" DiPaolo	33,073,308	2,891,388	--
Jerry Winchester	33,378,382	2,622,678	--
Richard Anderson	33,421,888	2,542,788	--
K. Kirk Krist	33,457,172	2,543,888	--
Tracy Turner	33,227,072	2,773,988	--
Brian Krause	33,247,172	2,753,888	--

Each of the directors was elected by the holders of more than a plurality of the shares present, in person or by proxy, at the annual meeting.

The voting was as follows for the increase of common stock of the Company to 125,000,000 shares:

FOR	WITHHELD	ABSTAINING
32,036,575	3,565,698	398,787

The proposal to increase the common stock of the Company was passed by the holders of more than a majority of the shares entitled to vote thereon.

The voting was as follows for the repeal of the provisions of the Certificate of Incorporation that restrict the issuance of common stock and preferred stock to directors, officers and 10% or greater stockholders:

FOR	WITHHELD	ABSTAINING	BROKER NON-VOTES
21,042,238	3,880,471	889,699	10,188,652

The proposal to repeal the provisions of the Certificate of Incorporation was passed by the holders of more than a majority of the shares entitled to vote thereon.

The voting was as follows on approving the Company's 2000 Long-Term Incentive Plan:

FOR	WITHHELD	ABSTAINING	BROKER NON-VOTES
21,426,480	3,225,809	1,160,119	10,188,652

The proposal to approve the 2000 Long-Term Incentive Plan was passed by the holders of more than a majority of the shares present, in person or by proxy, at the annual meeting.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's common stock is listed on the AMEX under the symbol "WEL." The following table sets forth the high and low sales prices per share of the common stock for each full quarterly period within the two most recent fiscal years as reported on the AMEX:

HIGH AND LOW SALES PRICES

	1999		2000	
	HIGH	LOW	HIGH	LOW
First Quarter.	\$2.8750	\$1.7500	\$1.8125	\$0.3750
Second Quarter	2.1875	1.1875	0.8125	0.5000
Third Quarter.	1.2500	0.3750	1.0000	0.3750
Fourth Quarter	0.7500	0.2500	0.8125	0.3125

On March 29, 2001, the last reported sale price of the common stock as reported on AMEX was \$ 0.72 per share.

As of February 27, 2001, the Company's common stock was held by approximately 238 holders of record. The Company estimates that it has a significantly larger number of shareholders because a substantial number of the Company's shares are held of record by broker-dealers for their customers in street name.

The Company has not paid any cash dividends on its common stock to date. The Company's current policy is to retain earnings, if any, to provide funds for the operation and expansion of its business. The Company's credit facilities currently prohibit paying cash dividends. In addition, the Company is

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prohibited from paying cash dividends on its common stock before full dividends, including cumulative dividends, are paid to holders of the Company's preferred stock.

SALES OF UNREGISTERED SECURITIES; USE OF PROCEEDS

In March 2000, in satisfaction of a dispute between the Company and certain unaffiliated parties, the Company agreed to modify the terms of certain warrants held by such parties to lower the exercise price on 100,000 shares from \$5.00 per share to \$1.25 per share and to lower the exercise price on 100,000 shares to \$1.50 per share. The Company also agreed to issue an additional 952,153 shares of its common stock upon the conversion of 40,000 shares of its 10% Junior Redeemable Convertible Preferred Stock held by certain of such unaffiliated parties and issued a warrant to purchase 450,000 shares of common stock at an exercise price of \$1.25 per share.

During the year ended December 31, 2000, the Company received approximately \$8,700,000 in funds from the purchase of participation interests in its senior secured credit facility with Comerica. In connection with this financing, the Company issued 147,058 shares of common stock and warrants representing the right to purchase an aggregate of 8,729,985 shares of common stock of the Company to the participation interest holders and warrants to purchase an aggregate of 3,625,000 shares of common stock to the investment group that arranged the financing. The warrants have a term of five years and can be exercised by the payment of cash in the amount of \$0.625 per share as to 8,729,985 shares and \$0.75 per share as to 3,625,000 shares of common stock, or by relinquishing a number of shares subject to the warrant with a market value equal to the aggregate exercise price of the portion of the warrant being exercised.

Subsequently, in connection with the Seventh Amendment to Loan Agreement dated as of December 29, 2000, Specialty Finance Fund agreed to convert \$7,729,985 of the participation interest, plus \$757,315 in accrued interest thereon into 89,117 shares of the Company's Series H Cumulative Convertible Preferred Stock. The remaining \$1,000,000 of the participation interest was outstanding as senior secured debt as of December 31, 2000. This offering was structured as an exempt private placement pursuant to Section 4(2) of the Securities Act of 1933. Specialty Finance Fund has the right to convert shares of the Series H Stock, and all accrued but unpaid dividends owing through the date of conversion, into shares of common stock. The number of shares of common stock to be issued on each share of Series H Stock is determined by dividing face value plus the amount of any accrued but unpaid dividends on the Series H Stock by 85% of the ninety day average of the high and low trading prices preceding the date of notice to the Company; provided, that the conversion shall not use a price of less than \$0.75 per share and shall not be greater than \$1.25 per share unless the conversion occurs between January 1, 2001 and December 31, 2002, when the price shall not be greater than \$2.50 per share. If the Series H

Stock is converted into common stock, the Company will also be obligated to issue warrants providing the holders of the Series H Stock with the right for a three year period to acquire shares of common stock, at a price equal to the conversion price determined above, equivalent to ten percent (10%) of the number of shares into which the shares of Series H Stock are converted. This offering was structured as an exempt private placement pursuant to Section 4(2) of the Securities Act of 1933.

As more fully disclosed elsewhere herein, on August 24, 2000, the Company issued an aggregate of 3,000 shares of its Series C Preferred Stock and warrants to purchase an aggregate of 300,000 shares of common stock at \$0.75 per share to

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its outside directors as reimbursement for expenses associated with their service as directors of the Company. This offering was structured as an exempt private placement pursuant to Section 4(2) of the Securities Act of 1933 to existing directors of the Company.

As more fully disclosed elsewhere herein, on August 24, 2000, the Company issued 1,500 shares of its Series C Preferred Stock and warrants to purchase an aggregate of 150,000 shares at \$0.75 per share to Larry Ramming, its Chief Executive Officer, relating to his employment. This offering was structured as an exempt private placement pursuant to Section 4(2) of the Securities Act of 1933 to an existing officer and director of the Company.

As more fully disclosed elsewhere herein, on February 15, 2000, the Company issued options to purchase an aggregate of 150,000 shares at \$0.75 per share to each member of the board of directors (other than Tracy Turner) and Dewitt Edwards, Vice President and Secretary. This offering was structured as an exempt private placement pursuant to Section 4(2) of the Securities Act of 1933 to existing officers and directors of the Company.

On June 27, 2000, the Company issued 9,750 Shares of Series C Preferred Stock and warrants to purchase an aggregate of 975,000 shares of common stock at \$0.75 per share to the Ramming Family Limited Partnership (the "Partnership"), of which Larry Ramming is a controlling person, in exchange for accrued obligations relating to renewals, modifications, points, and releases in connection with a loan to the Company in the original principal amount of \$7,000,000. Additionally, the Company issued to the Partnership on June 27, 2000, a warrant to purchase 2,000,000 shares of common stock at \$0.75 per share in satisfaction of its obligation to do so at the inception of the loan. This offering was structured as an exempt private placement pursuant to Section 4(2) of the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain historical financial data of the Company for the fiscal year ended June 30, 1997, the six months ended December 31, 1997, and the years ended December 31, 1998, 1999 and 2000 which was derived from the Company's audited consolidated financial statements. In the opinion of management of the Company, the unaudited consolidated financial statements for the six months ended December 31, 1996 and the year ended December 31, 1997 include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial data for such period. The results of operations for the six months ended December 31, 1996 and 1997 are not necessarily indicative of results for a full fiscal year. The decision was made in December 1999 to sell or in the alternative discontinue the Company's materials and equipment procurement, transportation and logistics services conducted through its subsidiary, ITS Supply Corporation ("ITS"). In April 2000, substantially all prospective operations were ceased and the majority of employees were terminated pursuant to a reduction in workforce. As a result of ongoing operating losses, a shortage of working capital and the absence of a viable purchaser for ITS's operations; on May 18, 2000, ITS filed in Corpus Christi, Texas for protection under Chapter XI of the U.S. Bankruptcy Code. The results of operations of ITS are presented as discontinued operations in Selected Financial Data and in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Baylor Company was sold in September of 2000 and the results of operations of Baylor are presented as discontinued operations in Selected Financial Data and in Management's Discussion and Analysis of Financial Condition and Results of Operations.

The data should be read in conjunction with the Consolidated Financial

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Statements (including the Notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

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	YEAR ENDED JUNE 30, 1997	SIX MONTHS ENDED DECEMBER 31,		YEARS EN 1997	
		1996	1997	1997	1998
		(UNAUDITED)		(UNAUDITED)	
INCOME STATEMENT DATA:					
Revenues	\$ 2,564,000	\$ 743,000	\$ 5,389,000	\$ 7,154,000	\$32,295,000
Operating loss	(68,000)	(397,000)	(432,000)	(360,000)	(1,202,000)
Loss from continuing operations before extraordinary item	(156,000)	(411,000)	(565,000)	(374,000)	(3,562,000)
Income (Loss) from discontinued operations, net of income taxes	-	-	-	-	566,000
Loss from sale of discontinued operations, net of income taxes	-	-	-	-	-
Net loss before extraordinary item	(156,000)	(411,000)	(565,000)	(374,000)	(2,996,000)
Extraordinary Item - Gain (loss) on debt extinguishment	-	-	(193,000)	(193,000)	-
Net loss	(156,000)	(411,000)	(758,000)	(567,000)	(2,996,000)
Net loss attributable to common shareholders	(156,000)	(411,000)	(758,000)	(567,000)	(3,937,000)
BASIC AND DILUTED LOSS PER COMMON SHARE:					
Continuing Operations	\$ (0.01)	\$ (0.04)	\$ (0.02)	\$ (0.03)	\$ (0.05)
Discontinued Operations . . .	\$ -	\$ -	\$ -	\$ -	\$ 0.00
Extraordinary Item	\$ -	\$ -	\$ (0.01)	\$ (0.02)	\$ (0.01)
Net Loss	\$ (0.01)	\$ (0.04)	\$ (0.03)	\$ (0.05)	\$ (0.05)
Weighted average common Shares outstanding	12,191,000	11,500,000	23,864,000	12,136,000	31,753,000

	DECEMBER 31, 1998	DECEMBER 31, 1999	DECEMBER 31, 2000
BALANCE SHEET DATA:			
Total assets	\$ 82,156,000	\$ 53,455,000	\$ 18,126,000
Long-term debt and notes payable.	50,349,000	43,181,000	12,620,000
Working capital (deficit)	48,625,000	(20,455,000)	(4,018,000)
Shareholders' equity (deficit) . .	20,236,000	(4,327,000)	(6,396,000)
Common shares outstanding	33,044,000	35,244,000	31,692,000

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto and the other financial information contained in the Company's periodic reports previously filed with the Commission and incorporated herein by reference.

As discussed herein, the Company completed the acquisitions of Boots & Coots, L.P. as of July 31, 1997; ABASCO, Inc. as of September 25, 1997; ITS Supply Corporation as of January 2, 1998; Boots & Coots Special Services, Inc. (formerly known as Code 3, Inc.) as of February 20, 1998; Baylor Company as of July 23, 1998, and HAZ-TECH Environmental Services, Inc. as of November 4, 1998. The results of operations for such acquisitions are included in the condensed Statements of Operations set forth hereinafter from the respective dates of acquisitions through the reporting period end. For all periods presented herein, the operations of ITS and Baylor have been reclassified as discontinued operations.

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A summary of operating results for the fiscal years ended December 31, 1998, 1999 and 2000 are as follows:

	YEARS ENDED DECEMBER 31		
	1998	1999	2000
Revenues	\$32,295,000	\$ 33,095,000	\$ 23,537,000
Costs and Expenses:			
Cost of Sales and Operating			
Expenses	24,415,000	31,971,000	21,792,000
Selling, General and			
Administrative	7,560,000	13,694,000	8,637,000
Depreciation and			
Amortization	1,522,000	2,907,000	2,665,000
Write-down of long-lived assets . . .	-	4,507,000	-
Loan guaranty charge	-	-	1,833,000
Operating Income (Loss)	(1,202,000)	(19,984,000)	(11,390,000)
Interest (expense) and other income,			
net	(2,241,000)	(6,402,000)	(11,277,000)
Income Tax Expense	(119,000)	(82,000)	(65,000)
Loss from Continuing Operations			
before Extraordinary Item	(3,562,000)	(26,468,000)	(22,732,000)
Income (Loss) from Discontinued			
Operations, net of income taxes . . .	566,000	(4,648,000)	1,544,000
Loss from Sale of Discontinued			
Operation net of income tax	-	-	(2,555,000)
Gain on Extraordinary Item	-	-	2,444,000
Net Loss	(2,996,000)	(31,116,000)	(21,299,000)

Business segment operating data from continuing operations is presented for purposes of discussion and analysis of operating results. In prior year reports,

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the risk management business unit of IWC Services, which encompasses the WELLSURE(R) Program, and ITS were included under a business segment, Programs and Services. As a result of the December 1999 decision to sell or in the alternative discontinue ITS business operations, an assessment has been made that the Company's risk management programs previously included in Programs and Services are more appropriately included with the Company's Emergency Response and Restoration business segment. Accordingly, business segment disclosures contained herein reflect this classification for all periods presented.

	YEARS ENDED DECEMBER 31,		
	1998	1999	2000
REVENUES			
Emergency Response and Restoration.	\$28,999,000	\$ 28,418,000	\$ 22,236,000
Manufacturing and Distribution. . .	3,296,000	4,677,000	1,301,000
	-----	-----	-----
	32,295,000	33,095,000	23,537,000
	=====	=====	=====
COST OF SALES AND OPERATING EXPENSES			
Emergency Response and Restoration.	21,599,000	27,509,000	20,244,000
Manufacturing and Distribution. . .	2,816,000	4,462,000	1,548,000
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	24,415,000	31,971,000	21,792,000
	=====	=====	=====
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (1)			
Emergency Response and Restoration.	7,289,000	11,858,000	8,160,000
Manufacturing and Distribution. . .	271,000	1,836,000	477,000
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	7,560,000	13,694,000	8,637,000
	=====	=====	=====
DEPRECIATION AND AMORTIZATION			
Emergency Response and Restoration.	1,402,000	2,780,000	2,665,000
Manufacturing and Distribution. . .	120,000	127,000	-
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	1,522,000	2,907,000	2,665,000
	=====	=====	=====
OPERATING INCOME			
Emergency Response and Restoration.	(1,291,000)	(17,296,000)	(10,667,000)
Manufacturing and Distribution. . .	89,000	(2,688,000)	(723,000)
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	(1,202,000)	(19,984,000)	(11,390,000)
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