

BOOTS & COOTS INTERNATIONAL WELL CONTROL INC  
Form 10-K  
March 31, 2003

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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, 2002

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  
(State or Other Jurisdiction of Incorporation or Organization)

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

11615 N. Houston Rosslyn  
Houston, Texas  
(Address of Principal Executive Offices)

77086  
(Zip Code)

281-931-8884  
(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

Indicate by check mark whether the registrant (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  No

Indicate by check mark whether the registrant if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule (2b-2) .

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The aggregate market value of Common stock held by non-affiliate as of June 28, 2002 was \$8,503,000.

The number of shares of the issuer's common stock outstanding on March 28, 2003 was 71,187,727.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the 2003 Annual Meeting of Stockholder to be held on June 17, 2003, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2002, are incorporated by reference into Part III.

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FORM 10-K

ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2002

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This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on expectations, estimates and projections as of the date of this filing. These statements by their nature are subject to risks, uncertainties and assumptions and are influenced by various factors and, as a consequence, actual results may differ materially from those expressed in forward-looking statements. See Item 7 of Part II - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements."

### PART I

#### ITEM 1. DESCRIPTION OF BUSINESS

##### 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 these 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 oil and gas emergencies and restore affected oil and gas wells to production. Through its participation in the proprietary insurance program WELLSURE(R), the Company provides lead contracting and high-risk management services, under critical loss scenarios, to the program's insured clients. Additionally, under the WELLSURE(R) program the Company provides certain pre-event prevention and risk mitigation services. The Company also provides high-risk well control management services, and pre-event planning, training and consulting services.

##### RECENT DEVELOPMENTS

**FINANCING ARRANGEMENT.** On December 4, 2002, the Company entered into a loan agreement with Checkpoint Business, Inc. ("Checkpoint") providing for short term working capital up to \$1,000,000. The effective interest rate of under the loan agreement is 15% per annum. Checkpoint collateral includes substantially all of the assets of the Company, including the stock of the Company's Venezuelan subsidiary.

As of December 31, 2002 and March 28, 2003, the Company had borrowed \$500,000 and an additional \$200,000, respectively, under this facility. In January 2003, the Company received a notice of default from Checkpoint, wherein it alleged several defaults under the loan agreement. As a condition of receiving additional advances, in February 2003, the Company entered into an agreement with Checkpoint in which it agreed to grant Checkpoint an option to purchase its Venezuelan subsidiary for fair market value, as determined by appraisal, under certain circumstances. In the event Checkpoint wishes to exercise the option within certain time limits and is not permitted to do so because the option agreement is set aside by a bankruptcy court or the Company is unable to obtain the necessary consents to a sale of its subsidiary, then the Company would be obligated to pay \$250,000 in liquidated damages.

In January 2003, Checkpoint presented the Company with a restructuring proposal that would entail a voluntary Chapter 11 bankruptcy filing and the cancellation of the Company's common equity as part of the bankruptcy plan. The Company considered this proposal and other alternatives that would allow it to restructure its obligations and improve its liquidity and engaged legal and financial consultants to assist it in its assessment of its alternatives. On March 28, 2003, the Company decided against the restructuring proposal from Checkpoint and paid in full the principal balance of \$700,000 and interest outstanding under its loan agreement with Checkpoint. The Company and Checkpoint are currently discussing terminating the option agreement. The Company continues to consider its restructuring alternatives, which, under the proper circumstances may include a voluntary filing for protection under Chapter

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11 of the Bankruptcy Code.

Amex Listing The American Stock Exchange ("AMEX") by letter dated March 15, 2002, required the Company to submit a reasonable plan to regain compliance with AMEX's continued listing standards by December 31, 2002. On April 15, 2002, the Company submitted a plan that included interim milestones that the Company would be required to meet to remain listed. AMEX subsequently notified the Company that its plan had been accepted; however, on June 28, 2002, the Company submitted an amendment to the plan to take into account, among other things, certain restructuring initiatives that the Company had undertaken. The Company has not been advised by AMEX whether or not it approved the June 28, 2002, amended plan. Since submitting the amended plan, the Company has been actively pursuing alternatives that would allow it to fulfill the objectives outline in the amended plan. However, the Company does not, at this time, have any prospects or commitments for new financing or the restructuring of its existing obligations that, if successfully completed, would result in compliance with AMEX's continued listing standards.

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AMEX may institute immediate delisting proceedings as a consequence of the Company's failure to achieve compliance its continued listing standards. As of the date hereof the Company has not been advised by AMEX of any immediate delisting action.

AMEX continued listing standards require that listed companies maintain stockholders' equity of \$2,000,000 or more if the Company has sustained operating losses from continuing operations or net losses in two of its three most recent fiscal years or stockholders equity of \$4,000,000 or more if it has sustained operating losses from continuing operations or net losses in three of its four most recent fiscal years. Further, the AMEX will normally consider delisting companies that have sustained losses from continuing operations or net losses in their five most recent fiscal years or that have sustained losses that are so substantial in relation to their operations or financial resources, or whose financial condition has become so impaired, that it appears questionable, in the opinion of AMEX, as to whether the company will be able to continue operations or meet its obligations as they mature.

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

### HISTORY OF COMPANY

The Company was incorporated in Delaware in April 1988, remaining largely inactive until acquiring IWC Services, Inc., a Texas corporation 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

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June 1995 by six former key employees of the Red Adair Company.

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

In September 1997, the Company acquired Abasco, Inc., a manufacturer of oil and chemical spill containment equipment and products. In January 1998, the Company acquired international Tool and Supply Corporation, a materials and equipment procurement, transportation and logistics company. In February 1998, the Company acquired Code 3, Inc., a provider of containment and remediation services in hazardous materials and oil spills. In July 1998, the Company acquired Baylor Company, a manufacturer of industrial products for the drilling, marine and power generation industries. In November 1998, Code 3, Inc., then known as "Special Services", acquired HAZ-TECH Environmental Services, Inc., a provider of hazardous material and waste management and related services. As a result of ongoing operating losses, the Company discontinued the operation of Abasco and Special Services, and sold the Baylor Company. International Tool and Supply Corporation ceased operations and filed for bankruptcy in April 2000.

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 operating losses, 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 the assets of Baylor Company, Abasco and its Special Services divisions and focused its efforts on its remaining core business segments, Prevention and Response. Subject to capital availability, and 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 intends to build upon its demonstrated strengths in high-risk management while increasing revenues from its pre-event and engineering services and non-critical event services.

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Executive Offices. The Company's principal executive office is located at 11615 N. Houston Rosslyn, Houston, Texas, 77086.

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

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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 were 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. 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 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 is causing underwriting syndicates to seek

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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(R), a proprietary insurance program in which the Company is the provider of both pre-event and loss management services.

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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, including changes in the volume and type of drilling and work-over activity occurring in response to fluctuations in oil and natural gas prices. Wars, acts of terrorism and other unpredictable factors may also increase the need for oil and gas well firefighting and blowout control services from time to time. As a result, the Company expects to experience large fluctuations in its revenues from oil and gas well firefighting and blowout control services. The Company's acquisitions of complementary businesses were designed to broaden its product and service offerings and mitigate the revenue and earnings volatility associated with its oil and gas well firefighting and blowout control services. The contraction of the Company's service and product offerings as a consequence of its financial difficulties has made it more susceptible to this volatility. Accordingly, the Company expects that its revenues and operating performance may vary considerably from year to year for the foreseeable future.

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

### PREVENTION

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 and the Emergency Response Center established in Algeria. The Company also provides ongoing consulting services relating to the Emergency Response Centers, including equipment sales, training, contingency planning, safety inspections and emergency response drills.

Drilling Engineering. The Company has a highly specialized in-house engineering staff which, in alliance with Halliburton Energy Services, provides engineering services, including planning and design of relief well drilling (trajectory planning, directional control and equipment specifications, and on-site supervision of the drilling operations); planning and design of production facilities which are susceptible to well capping or other control procedures; and mechanical and computer aided designs for well control equipment.

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 are provided by the Company and offered as a standard option in Halliburton's field service programs.

Training. The Company provides specialized training in well control procedures for drilling, exploration and production personnel for both U.S. and international operators. The Company's training services are offered in conjunction with ongoing educational programs sponsored by Halliburton.

Strategic Event Planning (S.T.E.P.). A critical component of the services

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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.

Regional Emergency Response Centers (SafeGuard). The Company has established and maintains industry supported "Fire Stations" on the North Slope of Alaska. 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.

### RESPONSE

Well Control. This service segment is divided into two distinct levels: "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; "Non-critical Event" response, on the other hand, is intended for the more common sub-surface operating problems that do not involve escaping hydrocarbons.

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Critical Events. Critical Events frequently result in explosive fires, loss of life, 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. Critical Events of catastrophic proportions can result in significant revenues to the Company in the year of the incident. The Company's professional firefighting staff has over 200 years of aggregate industry experience in responding to Critical Events, oil well 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 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, including 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. Rentals typically average approximately 40% of the revenues associated with a Critical Event.

WELLSURE(R) Program. The Company and Global Special Risks, Inc., a managing general insurance agent located in Houston, Texas, and New Orleans, Louisiana, have formed an alliance that offers oil and gas exploration production



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companies, through retail insurance brokers, a 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 are provided with the full benefit of having the Company as a safety and prevention partner. In the event of well blowouts, the Company serves as the integrated emergency response service provider, as well as lead contractor and project manager for control and restoration of wells covered under the program.

### 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.

### 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
- Specialized equipment design, rental, and sales

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- Contingency planning consultation where WELLCALL(SM) specialists meet with customers, identify potential problems, and help develop a comprehensive contingency plan
- 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

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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. 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 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 a blowout. The Company provides comprehensive advance training, readiness, preparation, inspections and mobilization drills which allow clients to pursue every possible preventive measure and to react in a cohesive manner 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. 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.

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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 hereunder, 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 date, the Company has not been subject to any fines or penalties for violations of governmental or environmental regulations and has not incurred material capital expenditures to comply with environmental regulations.

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### 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 and the WELLSURE(R) program have 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 have greater financial resources than the Company, is intense and is expected to increase as the industry undergoes additional 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 ability to develop, produce or sell competitive products or the specialized equipment used in its business.

### EMPLOYEES

As of March 31, 2003, the Company and its operating subsidiaries collectively had 43 full-time employees, and 3 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

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extraordinarily high degree of risk. Hazardous 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 currently 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. 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 (SM)all number of persons who possess the requisite skills and experience, the Company is highly dependent upon the personal efforts and abilities of its 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.

### CONTRACTUAL OBLIGATIONS TO CUSTOMERS; INDEMNIFICATION

The Company customarily enters into service contracts which 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 to claims by

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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. 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 owns a facility in northwest Houston, Texas, at 11615 N. Houston Rosslyn Road, that includes approximately 2 acres of land, a 4,000

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square foot office building and a 12,000 square foot manufacturing and warehouse building. Additionally, the Company has leased office and equipment storage facilities in various other cities within the United States and Venezuela. The future commitments on these additional leases are immaterial. The Company believes that these facilities will be adequate for its anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

In September 1999, a lawsuit styled Jerry Don Calicutt, Jr., et al., v. Larry H. Ramming, et al., was filed against the Company, certain of its subsidiaries, Larry H. Ramming, Charles Phillips, certain other employees of the Company, and several entities affiliated with Larry H. Ramming in the 269th Judicial District Court, Harris County, Texas. The plaintiffs alleged various causes of action, including fraud, breach of contract, breach of fiduciary duty and other intentional misconduct relating to the acquisition of stock of a corporation by the name of Emergency Resources International, Inc. ("ERI") by a corporation affiliated with Larry H. Ramming and the circumstances relating to the founding of the Company. In July 2002, the Company agreed to pay \$500,000 in cash in four installments, the last installment being due in January 2003, in partial settlement of the plaintiffs' claims against all of the defendants. As to the remaining claims, the defendants filed motions for summary judgment. On September 24, 2002 the court granted the defendants' motions for summary judgment. The Company had defaulted on the settlement after paying one installment of \$100,000, but has since resettled the case on behalf of all Boots & Coots entities and all employees of the Company (but not on behalf of Larry H. Ramming, Charles Phillips, and the other entities affiliated with Larry H. Ramming) by paying the remaining unpaid \$400,000 in March, 2003 in exchange for full and final release by all plaintiffs from any and all claims related to the subject of the case.

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

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

There were no matter submitted to a vote of security holders during the fourth quarter of 2002.

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 |       |       |       |
|---------------------------|-------|-------|-------|
| 2001                      |       | 2002  |       |
| HIGH                      | LOW   | HIGH  | LOW   |
| -----                     | ----- | ----- | ----- |
| -----                     | ----- | ----- | ----- |

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|                      |        |        |        |        |
|----------------------|--------|--------|--------|--------|
| First Quarter. . . . | \$0.96 | \$0.44 | \$0.46 | \$0.32 |
| Second Quarter . . . | 0.75   | 0.45   | 0.45   | 0.17   |
| Third Quarter. . . . | 0.85   | 0.51   | 0.22   | 0.06   |
| Fourth Quarter . . . | 0.69   | 0.35   | 0.24   | 0.06   |

On March 28, 2003 the last reported sale price of the common stock as reported on AMEX was \$0.83 per share.

As of March 28, 2003, the Company's common stock was held by approximately 232 holders of record. The Company estimates that it has a significantly larger number of beneficial stockholders as much of its common stock is held by broker-dealers in street name for their customers.

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 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.

The Company is not in compliance with the listing requirements of the American Stock Exchange (See discussion in Item 1, Description of Business - Amex Listing.)

### SALES OF UNREGISTERED SECURITIES

During 2002, the Company issued an aggregate of 1,181 shares of Series C Preferred Stock, 278 shares of Series D Preferred Stock, 5,651 shares of Series E Preferred Stock, 9,041 shares of Series G Preferred Stock and 9,772 shares of Series H Preferred Stock as quarterly dividends to holders of the same class of preferred stock. These issuances were structured as exempt private placements pursuant to Section 4(2) of the Securities Act of 1933.

From May to October 2002, an aggregate of 15,368 shares of outstanding Series C Preferred Stock were converted into an aggregate of 2,049,105 shares of common stock and an aggregate of 6,185 shares of outstanding Series H Preferred Stock were converted into an aggregate of 823,999 shares of common stock. These issuances were structured as exempt private placements pursuant to Section 4(2) of the Securities Act of 1933.

During April, May and July 2002, the Company issued shares of common stock to certain lenders in connection with their participation in the Company's senior credit facility with Specialty Finance Fund 1, LLC. In all, an aggregate of 546,668 shares were issued for this purpose. These issuances were structured as exempt private placements pursuant to Section 4(2) of the Securities Act of 1933.

In March 2002, the Company issued 188 shares of Series C Preferred Stock to settle a lawsuit. Shares of Series C Preferred Stock have a face value of \$100 per share and are convertible into common stock at \$0.75 per share. This issuance 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

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Company for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 which has been derived from the Company's audited consolidated financial statements. The results of operations of ITS, Baylor Company, Abasco and Special Services are presented as discontinued operations. The data should be read in conjunction with the consolidated financial statements, including the notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere.

|  | YEARS ENDED DEC |               |               |
|--|-----------------|---------------|---------------|
|  | 1998            | 1999          | 2000          |
| <b>INCOME STATEMENT DATA:</b>  |                 |               |               |
| Revenues . . . . .   | \$14,048,000    | \$ 14,126,000 | \$ 10,813,000 |
| Operating income (loss) . . . . .  | (943,000)       | (6,088,000)   | (3,363,000)   |
| Income (loss) from continuing operations<br>before extraordinary item . . . . .    | (3,116,000)     | (9,171,000)   | (8,820,000)   |
| Income (loss) from discontinued<br>operations, net of income taxes . . . . .       | 120,000         | (21,945,000)  | (12,368,000)  |
| Gain (loss) from sale of discontinued<br>operations, net of income taxes . . . . . | -               | -             | (2,555,000)   |
| Net income (loss) before<br>extraordinary item . . . . .                           | (2,996,000)     | (31,116,000)  | (23,743,000)  |
| Extraordinary<br>item -gain (loss) on<br>debt extinguishment . . . . .             | -               | -             | 2,444,000     |
| Net income (loss) . . . . .  | (2,996,000)     | (31,116,000)  | (21,299,000)  |
| Net loss attributable to common<br>stockholders . . . . .                          | (3,937,000)     | (32,360,000)  | (22,216,000)  |
| <b>BASIC AND DILUTED LOSS PER COMMON SHARE:</b>                                    |                 |               |               |
| Continuing operations . . . . .  | \$ (0.12)       | \$ (0.67)     | \$ (0.32)     |
| Discontinued operations . . . . .  | \$ -            | \$ (0.27)     | \$ (0.12)     |
| Extraordinary item . . . . .   | \$ -            | \$ -          | \$ 0.00       |
| Net loss . . . . .   | \$ (0.12)       | \$ (0.94)     | \$ (0.44)     |
| Weighted average common<br>shares outstanding . . . . .                            | 31,753,000      | 34,352,000    | 33,809,000    |

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|   | AS OF DECEMBER 31, |               |              |              |
|---|--------------------|---------------|--------------|--------------|
|   | 1998               | 1999          | 2000         | 2001         |
| <b>BALANCE SHEET DATA:</b>  |                    |               |              |              |
| Total assets (1) . . . . .  | \$97,585,000       | \$ 62,248,000 | \$18,126,000 | \$17,754,000 |
| Long-term debt and notes payable,<br>including current maturities (2) | 48,748,000         | 43,122,000    | 12,620,000   | 13,545,000   |
| Working capital (deficit) (3) . . . . .                               | 56,654,000         | (14,757,000)  | 93,000       | 3,285,000    |

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|                                      |            |             |             |             |
|--------------------------------------|------------|-------------|-------------|-------------|
| Stockholders' equity (deficit) . . . | 20,236,000 | (4,327,000) | (6,396,000) | (4,431,000) |
| Common shares outstanding . . . .    | 33,044,000 | 35,244,000  | 31,692,000  | 41,442,000  |