BOOTS & COOTS INTERNATIONAL WELL CONTROL INC
Form 10-Q
August 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended June 30, 2008

or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File Number 1-13817

Boots & Coots International
Well Control, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	11-2908692 (I.R.S. Employer Identification No.)
7908 N. Sam Houston Parkway W., 5th Floor Houston, Texas (Address of principal executive offices)	77064 (Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated Filer £	Accelerated Filer S
Non-accelerated Filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes £ No S

The number of shares of the Registrant's Common Stock, par value $.00001 per share, outstanding at August 4, 2008, was 76,545,076.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

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(Unaudited)

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BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(000's except share and per share amounts)

ASSETS

	June 30, 2008 (unaudited)	December 31, 2007
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,523	$ 6,501
Restricted cash	29	29
Receivables, net	58,779	45,044
Inventory	2,797	1,385
Prepaid expenses and other current assets	8,729	8,796
Total current assets	78,857	61,755
PROPERTY AND EQUIPMENT, net	69,108	60,753
GOODWILL	8,886	8,886
INTANGIBLE ASSETS, net	4,216	4,472
OTHER ASSETS	274	549
Total assets	$ 161,341	$ 136,415
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 1,940	$ 1,940
Accounts payable	17,995	12,020
Foreign income tax payable	934	2,710
Accrued liabilities	15,451	10,373
Total current liabilities	36,320	27,043
LONG-TERM DEBT, net of current maturities	8,632	4,985
RELATED PARTY LONG-TERM DEBT	21,166	21,166
DEFERRED TAXES	4,977	5,658
OTHER LIABILITIES	657	520
Total liabilities	71,752	59,372
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock ($.00001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively)	—	—
Common stock ($.00001 par value, 125,000,000 shares authorized, 76,436,000 and 75,564,000 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively)	1	1
Additional paid-in capital	126,525	125,209
Accumulated other comprehensive loss	(1,234)	(1,234)
Accumulated deficit	(35,703)	(46,933)
Total stockholders' equity	89,589	77,043

Total liabilities and stockholders' equity	$	161,341	$	136,415

See accompanying notes to condensed consolidated financial statements.

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BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(000's except share and per share amounts)
(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
REVENUES	$ 51,891	$ 21,955	$ 96,919	$ 44,211
COST OF SALES, excluding depreciation and amortization	32,722	13,838	59,211	27,833
Gross Margin	19,169	8,117	37,708	16,378
OPERATING EXPENSES	7,002	4,527	13,172	8,986
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,843	1,449	5,333	2,451
FOREIGN CURRENCY TRANSLATION	63	115	100	183
DEPRECIATION AND AMORTIZATION	2,171	1,396	4,274	2,710
OPERATING INCOME	7,090	630	14,829	2,048
INTEREST EXPENSE AND OTHER, net	681	247	1,283	980
INCOME BEFORE INCOME TAXES	6,409	383	13,546	1,068
INCOME TAX EXPENSE	323	109	2,316	330
NET INCOME	6,086	274	11,230	738
Basic Earnings per Common Share:	$ 0.08	$ 0.00	$ 0.15	$ 0.01
Weighted Average Common Shares Outstanding – Basic	75,506,000	70,916,000	75,260,000	65,092,000
Diluted Earnings per Common Share:	$ 0.08	$ 0.00	$ 0.14	$ 0.01
Weighted Average Common Shares Outstanding – Diluted	78,073,000	73,149,000	77,626,000	67,395,000

See accompanying notes to condensed consolidated financial statements.

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BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2008
(Unaudited)
(000's)

	Preferred Stock		Common Stock		Additional Paid - in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
BALANCES, December 31, 2007	—	$ —	75,564	$ 1	$ 125,209	$ (1,234)	$ (46,933)	$ 77,043
Common stock options exercised	—	—	812	—	699	—	—	699
Restricted common stock issued	—	—	60	—	—	—	—	—
Stock based compensation	—	—	—	—	617	—	—	617
Net income	—	—	—	—	—	—	11,230	11,230
BALANCES, June 30, 2008	—	$ —	76,436	$ 1	$ 126,525	$ (1,234)	$ (35,703)	$ 89,589

See accompanying notes to condensed consolidated financial statements.

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BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(000's)
(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 11,230	$ 738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,274	2,710
Deferred tax credit	(681)	(450)
Stock-based compensation	617	509
Recovery of bad debts	(192)	—
Other non-cash charges	—	112
Gain on sale/disposal of assets	(55)	(146)
Changes in operating assets and liabilities:		
Receivables	(13,543)	11,139
Inventory	(1,412)	70
Prepaid expenses and other current assets	67	(518)
Other assets	275	218
Accounts payable and accrued liabilities	9,414	(9,542)
Net cash provided by operating activities	9,994	4,840
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment additions	(12,372)	(6,552)
Proceeds from sale of property and equipment	54	278
Net cash used in investing activities	(12,318)	(6,274)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of term loan	(970)	(1,512)
Revolving credit net borrowings(payments)	4,617	(1,917)
Net proceeds from issuance of common stock	—	28,827
Stock options exercised	699	586
Net cash provided by financing activities	4,346	25,984
Net increase in cash and cash equivalents	2,022	24,550
CASH AND CASH EQUIVALENTS, beginning of period	6,501	5,033
CASH AND CASH EQUIVALENTS, end of period	$ 8,523	$ 29,583
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest	$ 1,386	$ 1,513
Cash paid for income taxes	3,466	4,792

See accompanying notes to condensed consolidated financial statements.

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BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended June 30, 2008
(Unaudited)

A. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by accounting principles generally accepted in the United States of America for complete annual financial statements. The accompanying condensed consolidated financial statements include all adjustments, including normal recurring accruals, which, in the opinion of management, are necessary to make the condensed consolidated financial statements not misleading. The unaudited condensed consolidated financial statements and notes thereto and the other financial information contained in this report should be read in conjunction with the audited financial statements and notes in our annual report on Form 10-K for the year ended December 31, 2007, and our reports filed previously with the Securities and Exchange Commission (“SEC”). The results of operations for the six month period ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to the prior period consolidated financial statements to conform to current period presentation.

B. RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), “Fair Value Measurements,” which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, “Effective Date of FASB Statement No. 157,” which defers the effective date of Statement 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity’s financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We have adopted those provisions of SFAS 157 that were unaffected by the delay in the first quarter of 2008. Such adoption has not had a material effect on our consolidated statement of financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations.” SFAS 141(R) established revised principles and requirements for how the Company will recognize and measure assets and liabilities acquired in a business combination. The objective of this statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The statement is effective for business combinations completed on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which begins January 1, 2009 for the Company. The adoption of SFAS 141(R) is not expected to have a material impact on the Company’s results from operation or financial position.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". SFAS 160 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards. The statement is effective for

fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008, which begins January 1, 2009 for the Company. The adoption of SFAS 160 is not expected to have a material impact on the Company's results from operations or financial position.

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In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133". SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which begins January 1, 2009 for the Company. The adoption of SFAS 161 is not expected to have a material impact on the Company's results from operations or financial position.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in accordance with GAAP. With the issuance of this statement, the FASB concluded that the GAAP hierarchy should be directed toward the entity and not its auditor, and reside in the accounting literature established by the FASB as opposed to the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The adoption of SFAS 162 is not expected to have a material impact on the Company's results from operations or financial position.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts-an interpretation of FASB Statement No. 60." Diversity exists in practice in accounting for financial guarantee insurance contracts by insurance enterprises under FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises. This results in inconsistencies in the recognition and measurement of claim liabilities. This Statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement requires expanded disclosures about financial guarantee insurance contracts. The accounting and disclosure requirements of the Statement will improve the quality of information provided to users of financial statements. The Statement is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008, which begins January 1, 2009 for the Company. The adoption of FASB 163 is not expected to have a material impact on the Company's results from operations or financial position.

In June 2008, the FASB issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." Under the FSP, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years, and is not expected to have a material impact on the Company's results from operations or financial position.

C. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS

	June 30, 2008 (unaudited)	December 31, 2007
	(000's)	
Receivables, net:		
Trade	$ 37,268	$ 33,136

Unbilled Revenue		21,191		12,011
Other		336		144
Allowance for doubtful accounts		(16)		(247)
	$	58,779	$	45,044

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	June 30, 2008 (unaudited)	December 31, 2007
	(000's)	
Prepaid expenses and other current assets:		
Prepaid taxes	$ 4,012	$ 3,528
Prepaid insurance	689	2,092
Other prepaid expenses and current assets	4,028	3,176
	$ 8,729	$ 8,796

	June 30, 2008 (unaudited)	December 31, 2007
	(000's)	
Property and equipment, net:		
Land	$ 571	$ 571
Building and leasehold improvements	3,636	3,631
Equipment	56,775	47,551
Firefighting equipment	5,092	5,358
Furniture, fixtures and office	2,372	2,234
Vehicles	2,895	2,455
Construction in progress	12,376	9,954
Total property and equipment	83,717	71,754
Less: Accumulated depreciation	(14,609)	(11,001)
	$ 69,108	$ 60,753

	June 30, 2008 (unaudited)	December 31, 2007
	(000's)	
Accrued liabilities:		
Accrued compensation and benefits	$ 5,735	$ 3,244
Accrued insurance	726	392
Accrued taxes, other than foreign income tax	5,359	3,380
Other accrued liabilities	3,631	3,357
	$ 15,451	$ 10,373

D. BUSINESS ACQUISITION AND GOODWILL

On July 31, 2007, we acquired StassCo Pressure Control, LLC (StassCo) for $11.2 million, net of cash acquired and including transaction costs and a payable to the former owners of $500,000. StassCo performs snubbing services in the Cheyenne Basin, Wyoming and operates four hydraulic rig assist units based in Rock Springs, Wyoming. The transaction was effective for accounting and financial purposes as of August 1, 2007.

In accordance with SFAS No. 141, "Business Combinations", we used the purchase method to account for our acquisition of StassCo. Under the purchase method of accounting, the assets acquired and liabilities assumed from StassCo were recorded at the date of acquisition at their respective fair values. We engaged valuation firms to assist in the determination of the fair values of certain assets and liabilities of StassCo.

The purchase price, including direct acquisition costs, exceeded the fair value of acquired assets and assumed liabilities, resulting in the recognition of goodwill of approximately $4.6 million. The total purchase price, including direct acquisition costs of $0.1 million, a $0.5 million payable earned as contingent consideration by the former owners, less cash acquired of $0.8 million, was $11.2 million. The operating results of StassCo are included in the consolidated financial statements subsequent to the August 1, 2007 effective date. The intangible assets consist of customer relationships of $3,600,000 being amortized over a 13 year period and management non-compete agreements of $1,086,000 being amortized over 5.5 and 3.5 year periods.

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The preliminary fair values of the assets acquired and liabilities assumed effective August 1, 2007 were as follows (in thousands):

Current assets (excluding cash)	$ 744
Property and equipment	3,491
Goodwill	4,560
Intangible assets	4,686
Total assets acquired	13,481
Current liabilities	270
Deferred taxes	2,017
Total liabilities assumed	2,287
Net assets acquired	$ 11,194

The following unaudited pro forma financial information presents the combined results of operations of the Company and StassCo as if the acquisition had occurred as of the beginning of the period presented. The unaudited pro forma financial information is not necessarily indicative of what our consolidated results of operations actually would have been had we completed the acquisition at the date indicated. In addition, the unaudited pro forma financial information does not purport to project the future results of operations of the combined company.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007 Pro forma (000's)	2008 (000's)	2007 Pro forma (000's)	2008 (000's)
Revenue	$ 23,353	$ 51,891	$ 45,568	$ 96,919
Operating Income	1,337	7,090	3,130	14,829
Net Income	702	6,086	1,379	11,230
Basic Earnings Per Share	0.01	0.08	0.02	0.15
Diluted Earnings Per Share	0.01	0.08	0.02	0.14
Basic Shares Outstanding	70,916	75,506	65,092	75,260
Diluted Shares Outstanding	73,149	78,073	67,395	77,626

The carrying amount of goodwill as of June 30, 2008 and December 31, 2007 is $8,886,000 and consists of $4,560,000 from the StassCo acquisition and $4,326,000 from the acquisition of the hydraulic well control business (HWC) of Oil States in 2006.

E. INTANGIBLE ASSETS

Intangible assets were recognized in conjunction with the StassCo acquisition on July 31, 2007. There were no intangible assets prior to the acquisition.

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	June 30, 2008 (Unaudited)		
	Gross Carrying Amount (000's)	Accumulated Amortization	Net
Intangible assets			
Customer Relationships	$ 3,600	$ 255	$ 3,345
Non-compete agreements	1,086	215	871
	$ 4,686	$ 470	$ 4,216

Amortization expense on intangible assets for the quarter ended and the six months ended June 30, 2008 was (in thousands) $128 and $256, respectively. Total amortization expense is expected to be (in thousands) $512, $512, $512, $417 and $408 in 2008, 2009, 2010, 2011 and 2012, respectively.

F. LONG-TERM DEBT

Long-term debt at the dates indicated consisted of the following:

	June 30, 2008 (Unaudited) (000's)	December 31, 2007
U.S. revolving credit facility, with available commitments up to $10.3 million, a borrowing base of $10.3 million as of June 30, 2008 and an interest rate of 5.00% as of June 30, 2008	$ 5,675	$ 1,058
U.S. term credit facility with initial borrowings of $9.7 million, payable over 60 months and an interest rate of 5.50% as of June 30, 2008	4,897	5,867
Total debt	10,572	6,925
Less: current maturities	(1,940)	(1,940)
Total long-term debt	$ 8,632	$ 4,985

In conjunction with the acquisition of HWC on March 3, 2006, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, which established a revolving credit facility capacity totaling $10.3 million, subject to an initial borrowing base of $6.0 million, and a term credit facility totaling $9.7 million. The term credit facility is payable monthly over a period of sixty months and is payable in full on March 3, 2010, subject to extension under certain circumstances to March 3, 2011. The revolving credit facility is due and payable in full on March 3, 2010, subject to a year-to-year renewal thereafter. We utilized initial borrowings under the Credit Agreement totaling $10.5 million to repay senior and subordinated debt in full and to repurchase all of our outstanding shares of preferred stock and for other transaction related expenses. The loan balance outstanding on June 30, 2008 was $4.9 million on the term credit facility and $5.7 million on the revolving credit facility. The revolving credit facility borrowing base was $10.3 million at June 30, 2008, adjusted for $1.9 million outstanding under letters of credit and guarantees leaving $8.4 million available to be drawn under the facility.

At our option, borrowings under the Credit Agreement bear interest at either (i) Wells Fargo's prime commercial lending rate plus a margin ranging, as to the revolving credit facility up to 1.00%, and, as to the term credit facility, from 0.50% to 1.50% or (ii) the London Inter-Bank Market Offered Rate plus a margin ranging, as to the revolving credit facility, from 2.50% to 3.00% per annum, and, as to the term credit facility, from 3.00% to 3.50%, which margin increases or decreases based on the ratio of the outstanding principal amount under the Credit Agreement to our consolidated EBITDA. The interest rate applicable to borrowings under the revolving credit facility and the term credit facility at June 30, 2008 was 5.00% and 5.50%, respectively. Interest is accrued and payable monthly for both agreements. Fees on unused commitments under the revolving credit facility are due monthly and range from 0.25% to 0.50% per annum, based on the ratio of the outstanding principal amount under the Credit Agreement to our consolidated EBITDA.

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Substantially all of our assets are pledged as collateral under the Credit Agreement. The Credit Agreement contains various restrictive covenants and compliance requirements, including: (1) maintenance of a minimum book net worth in an amount not less than $55 million, (for these purposes "book net worth" means the aggregate of our common and preferred stockholders' equity on a consolidated basis); (2) maintenance of a minimum ratio of our consolidated EBITDA less unfinanced capital expenditures to principal and interest payments required under the Credit Agreement, on a trailing twelve month basis, of 1.50 to 1.00; (3) notice within five (5) business days of making any capital expenditure exceeding $500,000; and (4) limitation on the incurrence of additional indebtedness except for indebtedness arising under the subordinated promissory notes issued in connection with the HWC acquisition. We were in compliance with these covenants at June 30, 2008.

G. RELATED PARTY

A related party note of $15 million in unsecured subordinated debt was issued to Oil States Energy Services, Inc. in connection with the HWC acquisition, adjusted to $21.2 million during the quarter ended June 30, 2006 to reflect a $6.2 million adjustment for working capital acquired. The note bears interest at a rate of 10% per annum, and requires a one-time principal payment on September 9, 2010. Interest is accrued monthly and payable quarterly. The interest expense on the note was $529,000 and $1,058,000 for the quarters ended and six months ended June 30, 2008 and 2007, respectively.

H. COMMITMENTS AND CONTINGENCIES

Litigation

We are involved in or threatened with various legal proceedings from time to time arising in the ordinary course of business. We do not believe that any liabilities resulting from any such proceedings will have a material adverse effect on our operations or financial position.

Employment Contracts

We have employment contracts with executives and other key employees with contract terms that include lump sum payments of up to two years of compensation including salary, benefits and incentive pay upon termination of employment under certain circumstances.

I. EARNINGS PER SHARE

Basic and diluted income per common share is computed by dividing net income attributable to common stockholders by the weighted average common shares outstanding. The weighted average number of shares used to compute basic and diluted earnings per share for the three months and six months ended June 30, 2008 and 2007 are illustrated below (in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Numerator:				
For basic and diluted earnings per share:				
Net income attributable to common stockholders	$ 6,086	$ 274	$ 11,230	$ 738
Denominator:				
For basic earnings per share-weighted-average shares	75,506	70,916	75,260	65,092
Effect of dilutive securities:				
Stock options and warrants(1)	2,567	2,233	2,366	2,303
Denominator:				
For diluted earnings per share –weighted-average shares	78,073	73,149	77,626	67,395

(1) Excludes the effect of outstanding stock options, restricted shares, and warrants that have an anti-dilutive effect on earnings per share for the three months and six months ended June 30, 2008 and June 30, 2007.

The exercise price of our stock options and stock warrants varies from $0.67 to $3.00 per share. The maximum number of potentially dilutive securities at June 30, 2008, and 2007 included: (1) 5,099,500 and 5,916,000 common shares, respectively, issuable upon exercise of stock options, and (2) 163,500 and 637,500 common shares, respectively, issuable upon exercise of stock purchase warrants.

J. EMPLOYEE “STOCK-BASED” COMPENSATION

We have adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, consultants and directors; including employee stock options based on estimated fair values. SFAS No. 123R supersedes our previous accounting under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) for periods beginning in fiscal year 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) relating to SFAS No. 123R. We have applied the provisions of SAB 107 in our adoption of SFAS No. 123R.

We used the Black-Scholes option pricing model to estimate the fair value of options on the date of grant. The following assumptions were applied in determining stock-based employee compensation under SFAS No. 123R:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Risk-free interest rate		4.60%		4.60%
Expected dividend yield				
Expected option life		3.9 yrs		3.9 yrs
Expected volatility		60.8%		60.8%
		$ 1.03		$ 1.03

Weighted average fair value of options granted at market value		
Forfeiture rate	4.12%	4.12%

For the six month period ended June 30, 2008, there were no stock options granted.

K. BUSINESS SEGMENT INFORMATION

Our business segments are "well intervention" and "response". Intercompany transfers between segments were not material. Our accounting policies for the operating segments are the same as those described in Note A, "Basis of Presentation". For purposes of this presentation, operating expenses and depreciation and amortization have been charged to each segment based upon specific identification of expenses and remaining non-segment specific expenses have been allocated pro-rata between segments in proportion to their relative revenues. Selling, general and administrative and corporate expenses have been allocated between segments in proportion to their relative revenues.

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Our well intervention segment consists of services that are designed to enhance production for oil and gas operators and reduce the number and severity of critical well events such as oil and gas well fires, blowouts or other incidents due to loss of control at the well. Our services include hydraulic workover and snubbing, prevention and risk management, and pressure control equipment rental services. These services are available for both onshore and offshore operations for U.S. and international customers. Domestically, we generate revenue from these services on a "call-out" basis and charge a day rate for equipment and personnel. This contracting structure permits dynamic pricing based on market conditions, which are primarily driven by the price of oil and natural gas. Call out services range in duration from less than a week in the case of a single well cleanout procedure to more than one year for a multi-well plugging and abandonment campaign. Internationally, revenue is typically generated on a contractual basis, with contracts ranging between six months and three years in duration. Additionally, this segment includes our pressure control equipment rental service business, which was an expansion of the Company's well intervention segment in 2007.

Our response services consist of personnel, equipment and emergency services utilized during a critical well event, such as an oil and gas well fire, blowout or other loss of control at the well. These services also include snubbing and pressure control services provided during a response which are designed to minimize response time, mitigate damage and maximize safety. Revenue is generated through personnel time and material. Personnel time consists of day rates charged for working crews usually consisting of a team of four personnel. Day rates charged for personnel time vary widely depending upon the perceived technical, political and security risks inherent in a project. Critical events are typically covered by our customers' insurance, lowering the risk of non-payment. The emergency response business is by nature episodic and unpredictable.

Information concerning segment operations for the three months and six months ended June 30, 2008 and 2007 is presented below. Certain reclassifications have been made to the prior periods to conform to the current presentation.

	Well Intervention	Response	Consolidated
		(Unaudited)	
	(000's)		
Three Months Ended June 30, 2008:			
Operating Revenues	$ 45,415	$ 6,476	$ 51,891
Operating Income(1)(2)	5,058	2,032	7,090
Identifiable Operating Assets(3)	149,085	12,256	161,341
Capital Expenditures	5,510	67	5,577
Depreciation and Amortization(1)	2,042	129	2,171
Three Months Ended June 30, 2007:			
Operating Revenues	$ 18,343	$ 3,612	$ 21,955
Operating Income(Loss)(1)(2)	(698)	1,328	630
Identifiable Operating Assets(4)	96,013	22,355	118,368
Capital Expenditures	2,575	516	3,091
	1,344	52	1,396

Depreciation and
Amortization(1)

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	Well Intervention	Response	Consolidated
Six Months Ended June 30, 2008:			
Operating Revenues	$ 83,364	$ 13,555	$ 96,919
Operating Income(1)(2)	10,377	4,452	14,829
Identifiable Operating Assets(3)	149,085	12,256	161,341
Capital Expenditures	12,230	142	12,372
Depreciation and Amortization(1)	3,901	373	4,274
Six Months Ended June 30, 2007:			
Operating Revenues	$ 39,186	$ 5,025	$ 44,211
Operating Income(1)(2)	366	1,682	2,048
Identifiable Operating Assets(4)	96,013	22,355	118,368
Capital Expenditures	5,950	602	6,552
Depreciation and Amortization(1)	2,643	67	2,710

(1) Operating expenses and depreciation and amortization have been charged to each segment based upon specific identification of expenses and the remaining non-segment specific expenses have been allocated pro-rata between segments in proportion to their relative revenues.
(2) Selling, general and administrative expenses have been allocated pro-rata between segments based upon relative revenues and includes foreign exchange translation gains and losses.
(3) At June 30, 2008
(4) At June 30, 2007

L. INCOME TAXES

Effective January 1, 2007, we adopted FASB Interpretation Number 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which is intended to clarify the accounting for income taxes by prescribing a minimum recognition threshold for a tax position before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the requirements of FIN 48, the Company evaluated all tax years still subject to potential audit under state, federal and foreign income tax law in reaching its accounting conclusions. In accordance with FIN 48, the Company recorded a charge of $616,000 during 2007 and an associated charge of $103,000 during the first half of 2008. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. Tax years subsequent to 2005 remain open to examination by U.S. federal tax jurisdictions, tax years subsequent to 2002 remain open for state tax jurisdictions, tax years subsequent to 1996 remain open in Venezuela, tax years subsequent to 1999 remain open in the Congo and tax years subsequent to 2004 remain open in Algeria.

We have determined that as a result of the acquisition of HWC we have experienced a change of control pursuant to limitations set forth in Section 382 of the IRS rules and regulations. As a result, we will be limited to utilizing approximately $2.1 million of U.S. net operating losses ("NOL's") to offset taxable income generated by us during the tax year ended December 31, 2008 and expect similar dollar limits in future years until our U.S. NOL's are either completely used or expire.

In each period, the Company assesses the likelihood that its deferred taxes will be recovered from the existing deferred tax liabilities or future taxable income in each jurisdiction. To the extent that the Company believes that it does not meet the test that recovery is "more likely than not," it established a valuation allowance. We have recorded valuation allowances for certain net deferred tax assets since management believes it is more likely than not that these particular assets will not be realized. The Company has determined that a portion of its deferred tax asset related to the U.S. NOL's will be realized. Accordingly in the first quarter 2008, $0.7 million of valuation allowance was released, which represents one year of the Company's NOL limitation ($2.1 million).

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M. FAIR VALUE DISCLOSURE

Effective January 1, 2008, the Company adopted Financial Accounting Standards Board ("FASB") Statement No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The implementation of SFAS 157 did not cause a change in the method of calculating fair value of assets or liabilities, with the exception of incorporating a measure of the Company's own nonperformance risk or that of its counterparties as appropriate, which was not material. The primary impact from adoption was additional disclosures.

The Company elected to implement SFAS 157 with the one-year deferral permitted by FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"), issued February 2008, which defers the effective date of SFAS 157 for one year for certain nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. As it relates to the Company, the deferral applies to certain nonfinancial assets and liabilities as may be acquired in a business combination and thereby measured at fair value; impairment of fixed assets; and the initial recognition of asset retirement obligations for which fair value is used.

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

We generally apply fair value techniques on a non-recurring basis associated with (1) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets accounted for pursuant to SFAS No. 142, and (2) valuing potential impairment loss related to long-lived assets accounted for pursuant to SFAS No. 144.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The following table presents information about the Company's liability measured at fair value on a recurring basis as of June 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):