

BOOTS & COOTS INTERNATIONAL WELL CONTROL INC
Form 10-K
March 30, 2004

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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, 2003

☐ 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)

11615 N. Houston Rosslyn 77086
Houston, Texas (Zip Code)
(Address of Principal Executive Offices)

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
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Common Stock, \$.00001 par value	American Stock Exchange
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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 ☒.

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

The aggregate market value of Common stock held by non-affiliates as of June 30, 2003 was \$46,802,000.

The number of shares of the issuer's common stock outstanding on March 29, 2004 was 27,300,000.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the 2004 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K which will be filed with the Securities and Exchange Commission on or before April 30, 2004.

FORM 10-K

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ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2003

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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

Financial Improvements. At December 31, 2003 and as of the date of this filing the Company is not in default on any of its loan agreements. During July, 2003, the Company received substantial benefit from the conversion of \$1,689,000 of senior debt that was in default into 1,597,642 shares of common stock. Additionally, in August, 2003, The Company received short swing profit contribution proceeds of \$3,887,000 as a result of sales of Company securities by The Prudential Insurance Company of America that were voluntarily reported by Prudential. During the year ended December 31, 2003 there was a significant increase in international demand for the Company's services and equipment, specifically in the Middle East, in connection with the war in Iraq and subsequent efforts to restore Iraq's oil production. As a consequence, the Company's liquidity position has improved significantly over recent years. The Company's short-term liquidity also improved as a consequence of increases in prevention service revenues and certain asset sales. Improvements in liquidity allowed the Company to pay down current maturities of outstanding debt, significantly reduce payables owing to Company vendors and settle certain legal proceedings relating to the Company's past financial problems.

Restore Iraqi Oil Program. ("RIO"). During the year ended December 31, 2003, the Company relied heavily upon the RIO contract to generate income and cash flow. The Company operated under the contract as a subcontractor to KBR, the engineering and construction subsidiary of Halliburton. On January 16, 2004, Halliburton confirmed that the US Army Corps of Engineers had awarded KBR a contract to continue its RIO operations in southern Iraq for a period of two years, with three one-year renewal options.

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Pending the transition to the new contract for the RIO program in Iraq, the Company has temporarily demobilized its personnel in the region. Currently, it is unclear when the Company will re-mobilize its personnel, if ever, although the Company remains positioned to continue its previous work and respond immediately whenever an emergency arises in Iraq.

Amex Listing. On July 21, 2003 the Company received a letter from The American Stock Exchange ("AMEX") stating that the Company was not in compliance with the continued listing standards of AMEX and that AMEX had completed its review of Boots & Coots' previously submitted plan of compliance and supporting documentation (the "Plan"). AMEX indicated that the plan submitted by Boots & Coots made a reasonable demonstration of its ability to regain compliance with continued listing standards.

Specifically, AMEX stated that Boots & Coots was not in compliance with Section 1003(a)(i) with shareholders equity of less than \$2,000,000 and losses from continuing operations and/or net losses in two of its three most recent fiscal years and Section 1003(a)(ii) as shareholders equity was less than \$4,000,000 and the Company had sustained losses from continuing operations and / or net losses in three out of its four most recent fiscal years. As of December 31, 2003, the Company achieved Net Income in two out of the prior three years, hence the Company is now in compliance with Sections 1003(a)(i) and Section 1003(a)(ii).

Additionally, Amex stated that the Company was not in compliance with Section 301 of the AMEX Company Guide, which states that a listed company is not permitted to issue, or to authorize its transfer agent or registrar to issue or register, additional

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securities of a listed class until it has filed an application for the listing of such additional securities and received notification from the Exchange that the securities have been approved for listing. The Company subsequently filed the appropriate additional listing application and AMEX approved the application.

Finally, AMEX stated that, according to the Company's definitive proxy statement that was filed on July 11, 2003, the Company had only one member on its audit committee. As a result, the Company was not in compliance with audit committee composition requirements under Section 121B(b)(i) of the AMEX Company Guide, which requires each issuer to have and maintain an audit committee of at least three members, comprised solely of independent directors, each of whom is able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement or will become able to do so within a reasonable period of time after his or her appointment to the audit committee. The Company has subsequently added two directors, E.J. DiPaolo and Robert S. Herlin, each of whom is independent and has agreed to serve on the Audit Committee.

AMEX had granted Boots & Coots an extension until the filing due date of Boots & Coots Form 10-K for the period ending December 31, 2003 to gain compliance with AMEX's listing standards subject to the Company providing AMEX with updates, at least quarterly or as requested by AMEX, in conjunction with the initiatives outlined in the submitted Plan. As of December 31, 2003, the Company believes it is in compliance with all AMEX listing standards. AMEX has informed the Company that it will forward written confirmation of the Company's compliance subsequent to the Company's filing of this Form 10-K with the Securities and Exchange Commission.

HISTORY OF THE COMPANY

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The Company was incorporated in Delaware in April 1988, remaining largely inactive until acquiring IWC Services, Inc., a Texas corporation on July 29, 1997. 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 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. The well control response services business is a finite market with services dependent upon the occurrence of blowouts which cannot be reasonably predicted. Accordingly, the Company intends to build upon its demonstrated strengths in high-risk management while endeavoring to increase predictable revenues from its pre-event and engineering services and non-critical event services. As a result of historical operating losses, the Company had been forced to operate with a minimum of working capital.

As a result, the Company curtailed its business expansion program and was unable to aggressively pursue growth in its prevention services segment. Iraq has improved finances however, and the Company intends to aggressively develop the new prevention markets through business development, its insurance programs and geographic expansion programs.

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In addition to these internal efforts to grow its response and prevention service lines, the Company is also seeking complementary business acquisitions that would enable the Company to provide a more predictable level of income, broaden its service capabilities and increase its geographic presence. Simultaneously, the Company continues its efforts to improve its balance sheet and capital structure.

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 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

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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.

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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. Underwriting syndicates continue to firm renewal rates and seek 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.

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.

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

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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 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 emergency response centers. The centers allow the Company to generate a line of predictable revenues while expanding its geographic presence. Under a typical "SafeGuard" agreement, the Company will sell to producers the equipment required to respond to a blowout or oil or gas well fire and provide an ongoing maintenance and monitoring program to ensure the equipment is certified for emergency response. The Company also provides an "in-country" Well Control Specialist in order to minimize initial response time. Prevention services, under SafeGuard, include on-site training, contingency planning, safety inspections and emergency response drills. In addition to its home base in Houston, TX, the Company also currently has Emergency Response Centers in Anaco, Venezuela, and Hassi Massad, Algeria.

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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.

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

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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, atthey 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 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 has historically not been materially dependent upon a single or a few customers, although, in 2003, one customer represented a material amount of business for the 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:

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- 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 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. The Halliburton Alliance also gives the Company access to Halliburton's facilities world wide as well as 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

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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

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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.

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 Emergency Response Centers 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 29, 2004, the Company and its operating subsidiaries collectively had 37 full-time employees, and two part-time personnel, who are

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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. 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 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 employees. In seeking qualified personnel, the Company may 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 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

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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 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

On March 27, 2003, a lawsuit styled Gateway Ridgecrest Inc. vs. Boots & Coots International Well Control, Inc. alleging default by the Company under a Lease Agreement dated May 4, 1998 (the "Lease Agreement") by and between Plaintiff and the Company. The leased premises are located at 777 Post Oak Boulevard, Houston, Harris County, Texas 77056. Plaintiff seeks recovery of: (a) rent past due, future rent, common area maintenance charges, taxes, insurance, late charges and other charges proven up through the end of the term of the lease; (b) prejudgment and post-judgment interest on the amounts awarded at the maximum lawful rate; (c) attorney's fees, together with interest thereon; and (d) costs of suit. The Company has properly accrued for any potential liabilities under the lease agreement. The Company filed its answer generally denying Plaintiff's claims and asserting the affirmative defenses of surrender and termination, estoppel and waiver. Both parties have responded to written discovery. Plaintiff has filed a partial motion for summary judgment relating to the Company's liability under the Lease Agreement. The hearing on Plaintiff's motion for summary judgment was held on March 12, 2004, but the court has not yet ruled on the motion. The Company intends to vigorously defend this matter.

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 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. On September 24, 2003, Defendants Larry H. Ramming, Buckingham Funding Corporation and Buckingham Capital Corporation filed a Cross-Claim for Indemnification against the Company and its subsidiary, IWC Services, Inc., alleging that the Company and IWC Services, Inc. owed indemnification to said Defendants for the Plaintiffs' claims that still remain against said Defendants. The Company denies any indemnification obligation and intends to vigorously defend the matter.

The Company is involved in or threatened with various other legal proceedings from time to time arising in the ordinary course of business. The

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Company does not believe that any liabilities resulting from any such proceedings will have a material adverse effect on its operations or financial position.

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

On August 19, 2003, the Company convened its annual meeting of the stockholders in Houston, Texas. At the meeting, the stockholders were asked to elect one Class I director serving for a one year term, one Class II director serving for a two year term and one Class III director to server for a three year term and to approve a one to four reverse stock spit of the Company's common stock.

The voting was as follows:

Proposal I: Election of Directors.

	FOR	CLASS	WITHHELD	ABSTAINING	BROKER NON VOTES
W. Richard Anderson	22,884,967	I	460,588	--	--
Jerry L. Winchester	22,760,952	II	584,628	--	--
K. Kirk Krist	22,763,112	III	582,444	--	--

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.

Proposal II: Amendment to certificate of incorporation affecting a one for four reverse stock split of the Company's common stock.

FOR	AGAINST	ABSTAINING	BROKER NON VOTES
20,622,448	2,687,870	35,237	--

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

	2002		2003	
	HIGH	LOW	HIGH	LOW
First Quarter. . . .	\$1.84	\$1.28	\$8.40	\$0.48
Second Quarter . . .	1.80	0.68	3.20	0.96
Third Quarter. . . .	0.88	0.24	1.72	1.16
Fourth Quarter . . .	0.96	0.24	1.61	1.10

On March 29, 2004 the last reported sale price of the common stock as reported on AMEX was \$1.36 per share.

As of March 29, 2004, the Company's common stock was held by approximately 20,000 holders of record. The Company estimates that it has a 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

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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.

SALES OF UNREGISTERED SECURITIES

On March 31, 2003, all 12,000 shares of the Company's Junior Redeemable Convertible Preferred Stock were converted into 149,905 shares of the Company's common stock.

On March 20, 2003, 2,119 shares of 5,380 outstanding shares of the Company's Series C Cumulative Convertible Preferred Stock were converted into 70,634 shares of the Company's common stock.

On May 15, 2003, 1,053 shares of 3,261 outstanding shares of the Company's Series C Cumulative Convertible Preferred Stock were converted into 35,100 shares of the Company's common stock.

On March 27, 2003, all shares of 3,726 outstanding shares of the Company's Series D Cumulative Junior Preferred Stock were converted into 140,712 shares of the Company's common stock

On March 21, 2003, the Prudential Insurance Company of America converted 83,231 shares of the Company's Series G Cumulative Convertible Preferred Stock into 3,015,616 shares of the Company's common stock.

From January to April 2003, all 101,907 outstanding shares of the Company's Series H Cumulative Convertible Preferred Stock were converted into 3,396,718 shares of the Company's common stock.

On March 20, 2003, the Company's former Chief Executive Officer exercised options covering 225,000 shares of common stock.

On July 3, 2003, Prudential converted 60,193 and 14,009 shares of the Company's Series E and Series G Cumulative Convertible Preferred Stock, respectively into 3,401,801 shares of the Company's common stock. The Series E Preferred Stock converted included dividends which were paid in kind of 9,872 shares of Series E Preferred Stock. As of the date hereof, 582 shares of Series E Preferred Stock remain outstanding.

In July 2003, Specialty Finance Fund I, LLC and certain participation interest holders converted \$1,688,641 of senior secured debt and accrued interest into 1,597,642 shares of common stock.

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On August 15, 2003, 16,667, shares of common stock were issued related to finance charges on certain senior debt.

On October 24, 2003, 25,000 shares of common stock were issued related to a settlement with a law firm.

On October 31, 2003, 550,000 shares of common stock were issued in settlement of a liability with a public relations firm.

On November 20, 2003, 135,926 shares of common stock were issued to certain senior debt holders as finance charges.

These issuances were exempt private placements 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 years ended December 31, 1999, 2000, 2001, 2002 and 2003 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.

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	YEARS ENDED DECEMBER 31,			
	1999	2000	2001	2002
INCOME STATEMENT DATA:				
Revenues	\$ 14,126,000	\$ 10,813,000	\$16,938,000	\$ 14,102,000
Operating income (loss)	(6,088,000)	(3,363,000)	4,407,000	(1,539,000)
Income (loss) from continuing operations before extraordinary item	(9,171,000)	(8,820,000)	3,687,000	(2,525,000)
Income (loss) from discontinued operations, net of income taxes	(21,945,000)	(12,368,000)	(2,359,000)	(6,179,000)
Gain (loss) from sale of discontinued operations, net of income taxes	-	(2,555,000)	-	(476,000)
Net income (loss) before extraordinary item	(31,116,000)	(23,743,000)	1,328,000	(9,180,000)
Extraordinary item -gain on debt extinguishment	-	2,444,000	-	-
Net income (loss)	(31,116,000)	(21,299,000)	1,328,000	(9,180,000)
Net income (loss) attributable to common stockholders	(32,360,000)	(22,216,000)	(1,596,000)	(12,292,000)
BASIC INCOME (LOSS) PER COMMON SHARE:				
Continuing operations	\$ (1.21)	\$ (1.15)	\$ 0.08	\$ (0.16)
Discontinued operations	(2.56)	(1.77)	(0.24)	(0.16)
Extraordinary item	-	0.29	-	-
Net income (loss)	\$ (3.77)	\$ (2.63)	\$ (0.16)	\$ (0.16)

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	=====	=====	=====	=====
Weighted average common shares outstanding -Basic	8,588,000	8,452,000	10,018,000	10,828,
DILUTED INCOME (LOSS) PER COMMON SHARE:				
Continuing operations	\$ (1.21)	\$ (1.15)	\$ 0.08	\$ (0
Discontinued operations	(2.56)	\$ (1.77)	\$ (0.24)	\$ (0
Extraordinary item.	\$ -	0.29	\$ -	\$
Net income (loss)	\$ (3.77)	\$ (2.63)	\$ (0.16)	\$ (1
Weighted average common shares outstanding - Diluted.	8,588,000	8,452,000	10,018,000	10,828,
			AS OF DECEMBER 31,	
	1999	2000	2001	2
BALANCE SHEET DATA:				
Total assets (1).	\$ 62,248,000	\$ 18,126,000	\$17,754,000	\$ 7,036,
Long-term debt and notes payable, including current maturities (2)	43,122,000	12,620,000	13,545,000	15,000,
Working capital (deficit) (3) (4)	(14,757,000)	93,000	3,285,000	(16,994,
Stockholders' equity (deficit) (4). . . .	(4,327,000)	(6,396,000)	(4,431,000)	(13,988,
Common shares outstanding	8,811,000	7,991,000	10,361,000	11,216,

- (1.) The reduction in total assets from 1999 to 2000 is a result of the sale of Baylor. The reductions in total assets from 2001 to 2002 is a result of the sale of the assets of Special Services and Abasco.
- (2.) The reduction of long-term debt and notes payable, including current maturities from 1999 to 2000 is the result of a troubled debt restructuring and payments of debt from the proceeds of the sale of Baylor.
- (3.) The change in working capital from 1999 to 2000 as a result of reduction of current debt due to the effect of the troubled debt restructuring offset by the reduction of current assets as a result of the sale of Baylor. The change in working capital from 2001 to 2002 is primarily due to the classification of long term debt as current due to failing certain debt covenants.
- (4.) The change in working capital from 2002 - 2003 is a result of increased business activities in 2003 which resulted in higher levels of cash and receivables and payments on long term debt and reclassifying subordinated debt from current to long term debt. The change in equity from 2002-2003 is a result of net income in 2003, a short swing profit contribution and various issuances of common stock.

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 Securities and Exchange Commission and incorporated herein by reference.

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Summary consolidated operating results for the fiscal years ended December 31, 2001, 2002 and 2003 are as follows:

	YEARS ENDED DECEMBER 31,		
	2001	2002	2003
Revenues	\$16,938,000	\$ 14,102,000	\$35,935,000
Costs and expenses:			
Cost of sales	3,085,000	5,809,000	13,448,000
Operating expenses	5,463,000	5,893,000	8,253,000
Selling, general and administrative	2,739,000	2,737,000	3,004,000
Depreciation and amortization	1,244,000	1,202,000	996,000
Operating income (loss)	4,407,000	(1,539,000)	10,234,000
Interest (expense) and other income, net	(385,000)	(443,000)	(2,286,000)
Income tax expense	335,000	543,000	1,339,000
Income (loss) from continuing operations before extraordinary item	3,687,000	(2,525,000)	6,609,000
Income (loss) from discontinued operations, net of income taxes	(2,359,000)	(6,179,000)	482,000
Loss from sale of discontinued operations net of income tax	-	(476,000)	-
Net income (loss)	1,328,000	(9,180,000)	7,091,000
Stock and warrant accretions	(53,000)	(53,000)	(53,000)
Preferred dividends accrued	(2,871,000)	(3,059,000)	(1,170,000)
Net income (loss) attributable to common Stockholders	\$(1,596,000)	\$(12,292,000)	\$ 5,868,000

On January 1, 2001, the Company redefined the segments that it operates in as a result of the discontinuation of ITS and Baylor's operations, as well as on June 30, 2002, for the Abasco and Special Services business operations. All of these operations are presented as discontinued operations in the consolidated financial statements and therefore are excluded from the segment information for all periods. The current segments are Prevention and Response. Intercompany transfers between segments were not material. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. For purposes of this presentation, selling, general and administrative and corporate expenses have been allocated between segments in proportion to their relative revenue. Business segment operating data from continuing operations is presented for purposes of management discussion and analysis of operating results.

While Cost of Sales expenses are variable based upon the type of revenue generated, most of the Company's operating expenses represent fixed costs for base labor charges, rent and utilities. Consequently, operating expenses increase only slightly as a result of responding to a critical event. During periods of extremely high response activity, the Company will utilize third party consultants to support its response staff and costs of sales will rise more significantly. In the past, during periods of few critical events, resources dedicated to emergency response were underutilized or, at times, idle, while the fixed costs of operations continued to be incurred, contributing to significant operating losses. To mitigate these consequences, the Company is actively attempting to expand its non-event services. These services primarily utilize existing personnel to maximize utilization with only slight increases in fixed operating costs.

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The Prevention segment consists of "non-event" services that are designed to reduce the number and severity of critical well events to oil and gas operators. These services include training, contingency planning, well plan reviews, services associated with the Company's Safeguard programs and service fees in conjunction with the WELLSURE(R) risk management program. All of these services are designed to significantly reduce the risk of a well blowout or other critical response even.

The Response segment consists of personnel and equipment services provided during an emergency, such as a critical well event or a hazardous material response. The services provided are designed to minimize response time and damage while maximizing safety. Response revenues typically provide high gross profit margins.

Information concerning operations in different business segments for the years ended December 31, 2001, 2002 and 2003 is presented below. Certain reclassifications have been made to the prior periods to conform to the current presentation.

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	YEAR ENDED DECEMBER 31,		
	2001	2002	2003
REVENUES			
Prevention.	\$ 5,189,000	\$ 7,666,000	\$16,159,000
Response.	11,749,000	6,436,000	19,776,000
	\$16,938,000	\$14,102,000	\$35,935,000
COST OF SALES			
Prevention.	\$ 1,232,000	\$ 2,746,000	\$ 6,426,000
Response.	1,853,000	3,063,000	7,022,000
	\$ 3,085,000	\$ 5,809,000	\$13,448,000
OPERATING EXPENSES (1)			
Prevention.	\$ 1,863,000	\$ 3,547,000	\$ 4,228,000
Response.	3,600,000	2,346,000	4,025,000
	\$ 5,463,000	\$ 5,893,000	\$ 8,253,000
SELLING, GENERAL AND ADMINISTRATIVE (2)			
Prevention.	\$ 839,000	\$ 1,488,000	\$ 1,351,000
Response.	1,900,000	1,249,000	1,653,000
	\$ 2,739,000	\$ 2,737,000	\$ 3,004,000
DEPRECIATION AND AMORTIZATION (3)			
Prevention.	\$ 342,000	\$ 617,000	\$ 423,000
Response.	902,000	585,000	573,000
	\$ 1,244,000	\$ 1,202,000	\$ 996,000
OPERATING INCOME (LOSS)			
Prevention.	\$ 913,000	\$ (732,000)	\$ 3,731,000
Response.	3,494,000	(807,000)	6,503,000

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\$ 4,407,000	\$ (1,539,000)	\$10,234,000
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