BOOTS & COOTS INTERNATIONAL WELL CONTROL INC
Form 10-K
March 28, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

(MARK ONE)
[X] ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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

COMMISSION FILE NUMBER 1-13817

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

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	11-2908692 (I.R.S. Employer Identification No.)
777 POST OAK BOULEVARD, SUITE 800 HOUSTON, TEXAS (Address of Principal Executive Offices)	77056 (Zip Code)

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

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

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

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

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

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

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days.

The aggregate market value of such stock on March 22, 2002, based on closing sales price on that day was $11,239,349.

The number of shares of the issuer's common stock outstanding on March 22, 2002 was 41,442,285.

FORM 10-K

ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2001

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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, to remediate affected sites 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 snubbing and other high risk well control management services, pre-event planning, training and consulting services and markets oil and hazardous materials spill containment and recovery equipment and a varied line of industrial products for the oil and gas industry. In addition, the Company provides environmental remediation services to the petrochemical, chemical manufacturing and transportation industries, as well as to various state and federal agencies.

RECENT DEVELOPMENTS

Financing Arrangement. On June 18, 2001, the Company entered into an agreement with KBK Financial, Inc. ("KBK"), in which the Company pledged certain of its accounts receivable for a cash advance. The agreement allows the Company to pledge qualifying accounts receivable in an aggregate amount of up to $5,000,000. The Company receives an initial advance of 85% of the gross amount of each receivable pledged. Upon collection of the receivable, the Company receives an additional residual payment from which is deducted (i) a fixed fee equal to 2% of the gross pledged receivable and (ii) a variable financing charge equal to KBK's base rate plus 2% calculated over the actual length of time the advance was outstanding from KBK prior to collection. The Company's representations regarding the accounts receivable pledged to KBK are secured by a first lien on certain other accounts receivable of the Company. As of December 31, 2001, the Company had $2,383,000 of its accounts receivable pledged to KBK, representing the substantial majority of the Company's receivables that were eligible for pledging under the facility.

AMEX Listing. The American Stock Exchange (AMEX), by letter dated March 15, 2002, has informed the Company that on or before April 15, 2002, the Company must submit a reasonable plan to regain compliance with AMEX's continued listing standards by December 31, 2002. The plan must contain interim milestones that the Company will be required to meet to remain listed. If the Company fails to submit a plan the AMEX considers reasonable, fails to meet the milestones established in the plan or fails to obtain compliance with AMEX's continued listing standards by December 31, 2002, as reflected in its audited financial statements for the year then ended, the AMEX has indicated that it may institute immediate delisting proceedings.

In the past, the Company has voluntarily provided AMEX with information regarding its plans and expectations regarding compliance with continued listing standards, and the Company intends to similarly respond to AMEX's latest requests.

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

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

HISTORY OF COMPANY

The Company was incorporated in Delaware in April 1988, remaining largely inactive until acquiring IWC Services, Inc., a Texas corporation on July 29, 1997. In the transaction, the stockholders of IWC Services became the holders of approximately 93% of the outstanding shares of common stock of the Company and the management of IWC Services assumed management of the Company. IWC Services is a global-response oil and gas well control service company that specializes in responding to and controlling oil and gas well emergencies, including blowouts and well fires. In addition, IWC Services provides snubbing and other non-critical well control services. IWC Services was organized in 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 LP and its subsidiaries were engaged in oil well fire fighting, snubbing and blowout control services.

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

On September 25, 1997, the Company acquired Abasco, Inc., a designer and manufacturer of rapid-response oil and chemical spill containment and reclamation equipment and products. In response to depressed downstream industry conditions existing for a significant part of 1999 and 2000, and limitations on capital, the Company has substantially reduced but not discontinued the operations of Abasco, including the closure and consolidation of facilities and reductions in workforce.

On January 2, 1998, the Company acquired all of the capital stock of International Tool and Supply ("ITS"), a materials and equipment procurement, transportation and logistics company serving the energy industry. As a result of ongoing operating losses, a shortage of working capital and the absence of a currently identified viable purchaser for ITS' operations, substantially all of the operations of ITS were ceased in April 2000 and it filed for bankruptcy protection in Corpus Christi, Texas. ITS is currently proceeding to liquidate its assets and liabilities in bankruptcy.

On February 20, 1998, the Company acquired Boots & Coots Special Services, Inc., a provider of containment and remediation services in hazardous material and oil spills for the railroad, transportation and shipping industries, as well as various state and federal governmental agencies, specializing in the transfer of hazardous materials and high and low pressure liquids and industrial fire fighting. Boots & Coots Special Services also provides in-plant remedial plan implementation, hazardous waste management, petroleum tank management, industrial hygiene, environmental and occupational, health and safety services.

On July 23, 1998, the Company acquired Baylor Company, a manufacturer of varied industrial products for the drilling, marine and power generation industries. As a result of the Company's financial difficulties, substantially all of the assets of Baylor were sold in September 2000.

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

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

Business Strategy. As a result of operating losses, the Company has been forced to operate with a minimum of working capital. As a result, the Company curtailed its business expansion program, discontinued the operations of ITS, sold Baylor Company, reduced the operations of Abasco and focused its efforts on its remaining three core business segments, Prevention, Response and Restoration. Subject to capital availability, and recognizing that the well control services business is a finite market with services dependent upon the

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occurrence of blowouts which cannot be reasonably predicted, the Company intends to build upon its demonstrated strengths in high-risk management while increasing revenues from its pre-event and engineering services, environmental containment and remediation services and non-critical event services.

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

THE EMERGENCY RESPONSE SEGMENT OF THE OIL AND GAS SERVICE INDUSTRY

History. The emergency response segment of the oil and gas services industry traces its roots to the late 1930's when Myron Kinley organized the Kinley Company, the first oil and gas well firefighting specialty company. Shortly after organizing the Kinley Company, Mr. Kinley took on an assistant named Red Adair who learned the firefighting business under Mr. Kinley's supervision and remained with the Kinley Company until Mr. Kinley's retirement. When Mr. Kinley retired in the late 1950's, Mr. Adair organized the Red Adair

Company and subsequently hired Boots Hansen, Coots Matthews and Raymond Henry as members of his professional firefighting staff. Mr. Adair later added Richard Hatteberg, Danny Clayton, Brian Krause, Mike Foreman and Juan Moran to his staff, and the international reputation of the Red Adair Company grew to the point where it was a subject of popular films and the dominant competitor in the industry. Boots Hansen and Coots Matthews remained with the Red Adair Company until 1978 when they split off to organize Boots & Coots, an independent firefighting, snubbing and blowout control company.

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

- Immediately dispatch a control team to the well location to assess the damage, supervise debris removal, local equipment mobilization and site preparation;

- Gather and analyze the available data, including drilling history, geology, availability of support equipment, personnel, water supplies and ancillary firefighting resources;

- Develop or implement a detailed fire suppression and well-control plan;

- Mobilize additional well-control and firefighting equipment in Houston;

- Transport equipment by air freight from Houston to the blowout location;

- Extinguish the fire and bring the well under control; and

- Transport the control team and equipment back to Houston.

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

The 1990's have been a period of rapid change in the oil and gas well control and firefighting business. The hundreds of oil well fires that were started by Iraqi troops during their retreat from Kuwait spurred the development of new firefighting techniques and tools that have become industry standards. Moreover, after extinguishing the Kuwait fires, the entrepreneurs who created the oil and gas well firefighting industry, including Red Adair, Boots Hansen and Coots Matthews, retired, leaving the Company's senior staff as the most experienced active oil and gas well firefighters in the world. At present, the principal competitors in the oil and gas well firefighting business are the Company, Wild Well Control, Inc., and Cudd Pressure Control, Inc.

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

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

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 three business segments include:

Prevention

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

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

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

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

Oil and Chemical Spill Prevention. The Company specializes in the transfer of hazardous materials and high and low pressure liquids and industrial fire fighting and provides in-plant remedial plan implementation, hazardous waste management, petroleum tank management, industrial hygiene, environmental and occupational, health and safety services.

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 "FireStations" on the North Slope of Alaska. The Company has sold to a consortium of producers the equipment required to respond to a blowout or oil or gas well fire, and has agreed to maintain the equipment and conduct on-site safety inspections and emergency response drills. The Company also currently has Emergency Response Centers in Houston, Texas, Anaco, Venezuela, and Algeria.

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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 revenue impact of a Critical Event, they are more common and predictable. Non-critical Events can escalate into Critical Events.

Firefighting Equipment Rentals. This service includes the rental of specialty well control and firefighting equipment by the Company primarily for use in conjunction with Critical Events, including firefighting pumps, pipe racks, Athey wagons, pipe cutters, crimping tools and deluge safety systems. The Company charges this equipment out on a per diem basis. Rentals typically average approximately 40% of the revenues associated with a Critical Event.

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

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

Restoration

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

Containment and Reclamation Products. The Company's Abasco unit has been a leader in the design and manufacture of a comprehensive line of rapid response oil and chemical spill containment and reclamation equipment and products, including mechanical skimmers, containment booms and boom reels, dispersant sprayers, dispersal agents, absorbents, response vessels, oil and chemical spill industrial products, spill response packages, oil and chemical spill ancillary products and waste oil recovery and reclamation products. In response to depressed downstream industry conditions existing for a significant part of 1999

and limitations on capital, the Company has substantially reduced, but not discontinued, the operations of Abasco, including the closure and consolidation of facilities and reductions in workforce.

DEPENDENCE UPON CUSTOMERS

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

HALLIBURTON ALLIANCE

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

- Quick response with a global logistics system supported by an international communications network that operates around the clock, seven days a week

- A full-time team of experienced well control specialists that are dedicated to safety

- Specialized equipment design, rental, and sales

- 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. It is anticipated that future Company-owned Fire Stations, if developed, will be established at existing Halliburton facilities, such as the Algerian Fire Station, and that maintenance of the Fire Station equipment will be supported by Halliburton employees. The Halliburton Alliance also gives the Company access to Halliburton's global communications, credit and currency management systems, capabilities that could prove invaluable in connection with the Company's international operations.

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

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

REGULATION

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

Certain environmental laws provide for "strict liability" for remediation of spills and releases of hazardous substances and some provide liability for damages to natural resources or threats to public health and safety. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties, and criminal prosecution. It is possible that changes in the environmental laws and enforcement policies thereunder, or claims for damages to persons, property, natural resources, or the environment could result in substantial costs and liabilities to the Company. The Company's insurance policies provide liability coverage for sudden and accidental occurrences of pollution and/or clean-up and containment of the foregoing in amounts which the Company believes are comparable to companies in the industry. To 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, the WELLSURE program, and its acquisitions have strengthened its competitive position in the industry by expanding the scope of services that the Company offers to its customers. However, the Company's ability to compete depends upon, among other factors, capital availability, increasing industry awareness of the variety of services the Company offers, expanding the Company's network of Fire Stations and further expanding the breadth of its available services. Competition from other emergency response companies, some of which have greater financial resources than the Company, is intense and is expected to increase as the industry undergoes additional anticipated change. The Company's competitors may also succeed in developing new techniques, products and services that are more effective than any that have been or are being developed by the Company or that render the Company's techniques, products and services obsolete or noncompetitive. The Company's competitors may also succeed in obtaining patent protection or other intellectual property rights that might hinder the Company's ability to develop, produce or sell competitive products or the specialized equipment used in its business.

EMPLOYEES

As of March 22, 2002, the Company and its operating subsidiaries collectively had 132 full-time employees, and 41 part-time personnel, who are available as needed for emergency response projects. In addition, the Company has several part-time consultants and also employs part-time contract personnel who remain on-call for certain emergency response projects. The Company is not subject to any collective bargaining agreements and considers its relations with its employees to be good.

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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 KEY EMPLOYEES

The Company's emergency response services require highly specialized skills. Because of the unique nature of the industry and the small number of persons who possess the requisite skills and experience, the Company is highly dependent upon the personal efforts and abilities of its key employees. In seeking qualified personnel, the Company will be required to compete with companies having greater financial and other resources than the Company. Since the future success of the Company will be dependent upon its ability to attract and retain qualified personnel, the inability to do so, or the loss of personnel, could have a material adverse impact on the Company's business.

CONTRACTUAL OBLIGATIONS TO CUSTOMERS; INDEMNIFICATION

The Company customarily enters into service contracts which contain provisions that hold the Company liable for various losses or liabilities incurred by the customer in connection with the activities of the Company, including, without limitation, losses and liabilities relating to claims by third parties, damage to property, violation of governmental laws, regulations or orders, injury or death to persons, and pollution or contamination caused by substances in the Company's possession or control. The Company may be responsible for any such losses or liabilities caused by contractors retained by the Company in connection with the provision of its services. In addition, such contracts generally require the Company, its employees, agents and contractors to comply with all applicable laws, rules and regulations (which may include the laws, rules and regulations of various foreign jurisdictions) and to provide sufficient training and educational programs to such persons in order to enable them to comply with applicable laws, rules and regulations. In the case of emergency response services, the Company frequently enters into agreements with customers which limit the Company's exposure to liability and/or require the customer to indemnify the Company for losses or liabilities incurred by the Company in connection with such services, except in the case of gross negligence or willful misconduct by the Company. There can be no assurance, however, that such contractual provisions limiting the liability of the Company will be enforceable in whole or in part under applicable law.

ITEM 2. DESCRIPTION OF PROPERTIES.

The Company leases a 23,000 square foot office at 777 Post Oak Boulevard., Houston, Texas, from an unaffiliated landlord through August 2005 at a current monthly rental of $44,000. Beginning in February 2000, the Company subleased approximately 25% of this office space on substantially similar terms and conditions as the primary lease. The Company leases an 11,000 square foot Emergency Response Center facility in Anaco, Venezuela, for a monthly rental of $2,500. The Company owns a facility in northwest Houston, Texas, at 11615 N. Houston Rosslyn Road, that includes approximately 2 acres of land, a 4,000 square foot office building and a 12,000 square foot manufacturing and warehouse building. The Company leases a 7,000 square foot office in the Halliburton Center, Houston, Texas. This space is rented from an unaffiliated landlord through May 2002 for an average monthly rental of $7,000, and is subleased on substantially the same terms. The Company leases a 10,000 square foot office and equipment storage facility in southeast Houston, Texas, through December 31, 2003 at a monthly rental of $12,290. 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.

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ITEM 3. LEGAL PROCEEDINGS

ITS Supply Bankruptcy Claims

On April 27, 2001, in the United States Bankruptcy Court for the Southern District of Texas, the Chapter 7 Trustee in the bankruptcy proceeding of ITS, the Company's subsidiary, filed a complaint against Comerica Bank-Texas, the Company and various subsidiaries of the Company for a formal accounting of all lockbox transfers that occurred between ITS and Comerica Bank, et al. and all intercompany transfers between ITS and the Company and its subsidiaries to determine if any of the transfers are avoidable under Federal or state statutes and seeking repayment to ITS of all such amounts. The Trustee asserts that there were approximately $400,000 of lockbox transfers and $3,000,000 of intercompany transfers made between the parties. The Company does not believe that it is likely that an accounting of the transactions between the parties will demonstrate there is a liability owing by the Company to the ITS Chapter 7 estate. To provide security to Comerica Bank for any potential claims by the Chapter 7 trustee, the Company has pledged a $350,000 certificate of deposit in favor of Comerica Bank. This amount has been classified as a restricted asset on the balance sheet as of December 31, 2001.

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

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

On November 29, 2001, the Company convened its annual meeting of the stockholders in Houston, Texas. At the meeting, the stockholders elected three Class I directors serving for a three year term.

The voting was as follows:

	FOR	WITHHELD	ABSTAINING
Larry H. Ramming	31,042,182	380,002	--
Thomas L. Easley	31,111,117	311,067	--
E.J. "Jed" DiPaolo	31,031,242	390,942	--

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.

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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

	2000		2001	
	HIGH	LOW	HIGH	LOW
First Quarter	$1.8125	$0.3750	$0.9600	$0.4380
Second Quarter. . . .	0.8125	0.5000	0.7500	0.4500
Third Quarter	1.0000	0.3750	0.8500	0.5100
Fourth Quarter. . . .	0.8125	0.3125	0.6900	0.3500

On March 22, 2002 the last reported sale price of the common stock as reported on AMEX was $0.37 per share.

As of March 22, 2002, the Company's common stock was held by approximately 214 holders of record. The Company estimates that it has a significantly larger number of beneficial stockholders as much of its common stock is held by broker-dealers in street name for their customers.

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

AMEX, by letter dated March 15, 2002, has informed the Company that on or before April 15, 2002, the Company must submit a reasonable plan to regain compliance with AMEX's continued listing standards by December 31, 2002. The plan must contain interim milestones that the Company will be required to meet to remain listed. If the Company fails to submit a plan the AMEX considers reasonable, fails to meet the milestones established in the plan or fails to obtain compliance with AMEX's continued listing standards by December 31, 2002, as reflected in its audited financial statements for the year then ended, the AMEX has indicated that it may institute immediate delisting proceedings.

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

SALES OF UNREGISTERED SECURITIES; USE OF PROCEEDS

During the 2001 year, the Company issued the following securities in transactions exempt from registration under Section 4(2) the Securities Act of 1933, as amended:

- 8,129,636 shares of common stock in January 2001 in exchange for all 60,972 outstanding shares of Series B Convertible Preferred Stock.

- 750 shares of Series C Preferred Stock and a warrant to purchase 75,000 shares of common stock, at an exercise price of $0.75 per share, in October 2001 to a lawyer in exchange for legal services rendered.

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- 2,091 shares of Series C Preferred Stock in aggregate quarterly dividends on shares of Series C Preferred Stock outstanding during 2001, as well as 444,295 shares of common stock upon the conversion of 3,332 outstanding shares of Series C Preferred Stock in October 2001.

- 258 shares of Series D Preferred Stock in aggregate quarterly dividends on shares of Series D Preferred Stock outstanding during 2001.

- 5,125 shares of Series E Preferred Stock in aggregate quarterly dividends on shares of Series E Preferred Stock outstanding during 2001.

- 8,200 shares of Series G Preferred Stock in aggregate quarterly dividends on shares of Series G Preferred Stock outstanding during 2001.

- 9,134 shares of Series H Preferred Stock in aggregate quarterly dividends on shares of Series H Preferred Stock outstanding during 2001.

- 700,000 shares of common stock for legal settlements accrued in 2000, issued in April 2001.

- 97,900 shares of common stock as compensation to a group that arranged a participation interest in our senior credit facility in May 2001.

- 161,333 shares of common stock to a financial consultant in June 2001 in exchange for services rendered.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain historical financial data of the Company for the fiscal year ended June 30, 1997, the six months ended December 31, 1997, and the years ended December 31, 1998, 1999, 2000 and 2001 which has been derived from the Company's audited consolidated financial statements. In the opinion of management of the Company, the unaudited consolidated financial statements for the six months ended December 31, 1996 and the year ended December 31, 1997 include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial data for such period. The results of operations for the six months ended December 31, 1996 and 1997 are not necessarily indicative of results for a full fiscal year. The results of operations of ITS and Baylor Company 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.

	YEAR ENDED JUNE 30,	SIX MONTHS ENDED DECEMBER 31,	
	1997	1996	1997
		(UNAUDITED)	
INCOME STATEMENT DATA:			
Revenues.	$ 2,564,000	$ 743,000	$ 5,389,000
Operating loss.	(68,000)	(397,000)	(432,000)
Loss from continuing operations before extraordinary item.	(156,000)	(411,000)	(565,000)
Income (loss) from discontinued operations, net of income taxes.	-	-	-
Loss from sale of discontinued operations, net of income taxes.	-	-	-

Net loss before extraordinary item	(156,000)	(411,000)	(565,000)
Extraordinary item - gain (loss) on debt extinguishment.	-	-	(193,000)
Net loss.	(156,000)	(411,000)	(758,000)
Net loss attributable to common stockholders.	(156,000)	(411,000)	(758,000)
BASIC AND DILUTED LOSS PER COMMON SHARE:			
Continuing operations.	$ (0.01)	$ (0.04)	$ (0.02)
Discontinued operations.	$ -	$ -	$ -
Extraordinary item	$ -	$ -	$ (0.01)
Net loss	$ (0.01)	$ (0.04)	$ (0.03)
Weighted average common shares outstanding	12,191,000	11,500,000	23,864,000

	YEARS ENDED DECEMBER 31,			
	1997	1998	1999	2000
	(UNAUDITED)			
INCOME STATEMENT DATA:				
Revenues.	$ 7,154,000	$32,295,000	$ 33,095,000	$ 23,537,
Operating income (loss)	(360,000)	(1,202,000)	(19,984,000)	(11,390,
Income (loss) from continuing operations before extraordinary item.	(374,000)	(3,562,000)	(26,468,000)	(22,732,
Income (loss) from discontinued operations, net of income taxes. . . .	-	566,000	(4,648,000)	1,544,
Loss from sale of discontinued operations, net of income taxes. . . .	-	-	-	(2,555,
Net income (loss) before extraordinary item	(374,000)	(2,996,000)	(31,116,000)	(23,743,
Extraordinary item -gain (loss) on debt extinguishment.	(193,000)	-	-	2,444,
Net income (loss)	(567,000)	(2,996,000)	(31,116,000)	(21,299,
Net loss attributable to common stockholders.	(567,000)	(3,937,000)	(32,360,000)	(22,216,
BASIC AND DILUTED LOSS PER COMMON SHARE:				
Continuing operations.	$ (0.03)	$ (0.14)	$ (0.81)	$ (0
Discontinued operations.	$ -	$ 0.02	$ (0.13)	$ (0
Extraordinary item	$ (0.02)	$ -	$ -	$ 0
Net loss	$ (0.05)	$ (0.12)	$ (0.94)	$ (0
Weighted average common shares outstanding	12,136,000	31,753,000	34,352,000	33,809,

	DECEMBER 31, 1997	DECEMBER 31, 1998	DECEMBER 31, 1999	DECEMBER 31, 2000
BALANCE SHEET DATA:				
Total assets	$ 14,062,000	$ 82,156,000	$ 53,455,000	$ 18,126,000
Long-term debt and notes payable, including current maturities .	1,664,000	50,349,000	43,181,000	12,620,000
Working capital (deficit).	2,312,000	48,625,000	(20,455,000)	(4,018,000
Stockholders' equity (deficit) . .	10,232,000	20,236,000	(4,327,000)	(6,396,000
Common shares outstanding	29,999,000	33,044,000	35,244,000	31,692,000

- The reduction in total assets from 1998 to 1999 is a result of write downs in 1999.
- The reduction in total assets from 1999 to 2000 is a result of the sale of Baylor.
- 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.
- Negative working capital in 1999 is due to the classification of long-term debt as current due to failing certain debt covenants, partially offset by net assets of discontinued operations being classified as current assets.
- The change in working capital from 1999 to 2000 is 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.

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

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto and the other financial information contained in the Company's periodic reports previously filed with the Securities and Exchange Commission and incorporated herein by reference.

A summary of consolidated operating results for the fiscal years ended December 31, 1999, 2000 and 2001 is as follows:

	YEARS ENDED DECEMBER 31,		
	1999	2000	2001
Revenues.	$ 33,095,000	$ 23,537,000	$36,149,000
Costs and expenses:			
Cost of sales and operating	31,971,000	25,107,000	27,699,000
Selling, general and administrative.	13,694,000	5,322,000	4,582,000
Depreciation and amortization.	2,907,000	2,665,000	1,954,000
Write-down of long-lived assets . . .	4,507,000	-	-
Loan guaranty charge.	-	1,833,000	-
Operating income (loss)	(19,984,000)	(11,390,000)	1,914,000
Interest (expense) and other income, net	(6,402,000)	(11,277,000)	(653,000)

Income tax expense.	(82,000)	(65,000)	(335,000)
Income (loss) from continuing operations before extraordinary item.	(26,468,000)	(22,732,000)	926,000
Income (loss) from discontinued operations, net of income taxes . .	(4,648,000)	1,544,000	402,000
Loss from sale of discontinued operation net of income tax	-	(2,555,000)	-
Extraordinary gain on early debt extinguishment, net of income taxes .	-	2,444,000	-
Net income (loss).	(31,116,000)	(21,299,000)	1,328,000
Stock and warrant accretions.	(775,000)	(53,000)	(53,000)
Preferred dividends paid.	(14,000)	-	-
Preferred dividends accrued	(455,000)	(864,000)	(2,871,000)
Net loss attributable to common stockholders	$(32,360,000)	$(22,216,000)	$(1,596,000)

On January 1, 2001, the Company redefined the segments that it operates in as a result of the decision to discontinue the ITS and Baylor business operations. The current segments are Prevention, Response and Restoration. Most of the Company's subsidiaries operate in all three segments. 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 on a pro rata basis based on revenue. Business segment operating data from continuing operations is presented for purposes of discussion and analysis of operating results. ITS and Baylor are presented as discontinued operations in the consolidated financial statements and are therefore excluded from the segment information for all periods.

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 event.

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. However, when the Company responds to a critical event under the WELLSURE(R) program, the Company acts as a general contractor and engages

third party service providers, which form part of the revenues recognized by the Company. This revenue contribution has the ability to significantly lower the overall gross profit margins of the segment.

The Restoration segment consists of "post-event" services designed to minimize the effects of a critical emergency event as well as industrial and remediation service. The services provided range from environmental compliance and disposal services to facility decontamination services in the event of a plant closing. Restoration services are a natural extension of response service assignments.

Information concerning operations in different business segments for the years ended December 31, 1999, 2000 and 2001 is presented below. Certain classifications have been made to the prior periods to conform to the current presentation.

	YEARS ENDED DECEMBER 31,		
	1999	2000	2001
REVENUES			
Prevention.	$ 769,000	$ 2,134,000	$ 5,256,000
Response.	20,107,000	16,670,000	26,739,000
Restoration	12,219,000	4,733,000	4,154,000
	33,095,000	23,537,000	36,149,000
COST OF SALES AND OPERATING EXPENSES			
Prevention.	441,000	1,934,000	2,929,000
Response.	19,459,000	16,002,000	19,321,000
Restoration	12,071,000	7,171,000	5,449,000
	31,971,000	25,107,000	27,699,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (1)			
Prevention.	383,000	673,000	722,000
Response.	7,668,000	3,627,000	3,427,000
Restoration	5,643,000	1,022,000	433,000
	13,694,000	5,322,000	4,582,000
DEPRECIATION AND AMORTIZATION (2)			
Prevention.	46,000	251,000	333,000
Response.	2,303,000	1,772,000	1,401,000
Restoration	558,000	642,000	220,000
	2,907,000	2,665,000	1,954,000
OPERATING INCOME (LOSS) (3)			
Prevention.	(165,000)	(890,000)	1,272,000
Response.	(10,785,000)	(6,029,000)	2,590,000
Restoration	(9,034,000)	(4,471,000)	(1,948,000)
	(19,984,000)	(11,390,000)	1,914,000