

BOOTS & COOTS INTERNATIONAL WELL CONTROL INC

Form 10-Q

August 14, 2003

=====

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

FORM 10-Q

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

FOR THE QUARTER ENDED JUNE 30, 2003

COMMISSION FILE NUMBER 1-13817

BOOTS & COOTS INTERNATIONAL
WELL CONTROL, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

11615 N. HOUSTON ROSSYLN
HOUSTON, TEXAS
(Address of principal executive
offices)

77086
(Zip Code)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)
Yes No

The number of shares of the Registrant's Common Stock, par value \$.00001 per share, outstanding at August 13, 2003, were 106,111,720.

=====

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION
(UNAUDITED)

	PAGE

Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Stockholders' Equity (Deficit)	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7-14
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14-23
Item 3. Quantitative and Qualitative Disclosures about Market Risk	23
Item 4. Controls and Procedures	23

PART II
OTHER INFORMATION

Item 1. Legal Proceedings	24
Item 2. Changes in Securities and Use of Proceeds	24
Item 3. Defaults Upon Senior Securities	25
Item 4. Submissions of Matters to a Vote of Security Holders	26
Item 5. Other Information	26
Item 6. Exhibits and Reports on Form 8-K	26-29

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31, 2002	JUNE 30, 2003
	-----	-----
		(UNAUDITED)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 261,000	748,
Receivables - net	2,868,000	8,178,
Restricted assets	69,000	
Assets of discontinued operations	212,000	104,
Prepaid expenses and other current assets	620,000	480,
	-----	-----
Total current assets	4,030,000	9,510,
	-----	-----
PROPERTY AND EQUIPMENT - net	3,000,000	3,617,

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

OTHER ASSETS	6,000	5,
	-----	-----
Total assets	\$ 7,036,000	\$ 13,132,
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short term debt and notes	\$ 15,000,000	\$ 13,712,
Accounts payable	2,939,000	2,506,
Accrued liabilities	1,897,000	3,008,
Liabilities of discontinued operations	1,188,000	758,
	-----	-----
Total current liabilities	21,024,000	19,984,
	-----	-----
LONG TERM DEBT AND NOTES PAYABLE		
net of current maturities	-	1,300,
	-----	-----
Total liabilities	21,024,000	21,284,
	-----	-----
COMMITMENTS AND CONTINGENCIES	-	
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock (\$.00001 par value, 5,000,000 shares authorized, 331,000 and 127,000 shares issued and outstanding at December 31, 2002 and June 30, 2003, respectively)	-	-
Common stock (\$.00001 par value, 125,000,000 shares authorized, 44,862,000 and 83,818,000 shares issued and outstanding at December 31, 2002 and June 30, 2003, respectively)	-	1,
Additional paid-in capital	59,832,000	61,491,
Accumulated other comprehensive loss	(438,000)	(432,
Accumulated deficit	(73,382,000)	(69,212,
	-----	-----
Total stockholders' equity (deficit)	(13,988,000)	(8,152,
	-----	-----
Total liabilities and stockholders' equity (deficit) \$	7,036,000	\$ 13,132,
	=====	=====

See accompanying notes to condensed consolidated financial statements.

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS JUNE
	-----	-----
	2002	2002
	-----	-----
REVENUES		

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Service	\$ 2,894,000	\$ 8,026,000	\$ 6,904,000
Equipment sales	1,090,000	-	1,090,000
	-----	-----	-----
Total Revenues	3,984,000	8,026,000	7,994,000
COSTS OF SALES			
Service	1,115,000	2,640,000	2,484,000
Equipment sales	775,000	-	775,000
	-----	-----	-----
Total Costs of Sales	1,890,000	2,640,000	3,259,000
Gross Margin	2,094,000	5,386,000	4,735,000
Operating expenses.	1,747,000	1,892,000	3,373,000
Selling, general and administrative	734,000	634,000	1,413,000
Depreciation and amortization	288,000	254,000	574,000
	-----	-----	-----
OPERATING INCOME (LOSS)	(675,000)	2,606,000	(625,000)
INTEREST EXPENSE (INCOME) AND OTHER	905,000	481,000	1,005,000
	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS, before income taxes	(1,580,000)	2,125,000	(1,630,000)
INCOME TAX EXPENSE.	158,000	271,000	173,000
	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS.	(1,738,000)	1,854,000	(1,803,000)
LOSS (INCOME) FROM DISCONTINUED OPERATIONS, net of income taxes.	(5,422,000)	-	(7,187,000)
	-----	-----	-----
NET INCOME (LOSS)	(7,160,000)	1,854,000	(8,990,000)
PREFERRED DIVIDEND REQUIREMENTS & ACCRETIONS.	762,000	265,000	1,592,000
	-----	-----	-----
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS.	\$ (7,922,000)	\$ 1,589,000	\$ (10,582,000)
	=====	=====	=====
Basic Earnings (Loss) per Common Share:			
Continuing Operations.	\$ (0.06)	\$ 0.02	\$ (0.08)
	=====	=====	=====
Discontinued Operations.	\$ (0.13)	\$ 0.00	\$ (0.17)
	=====	=====	=====
Net Income (Loss).	\$ (0.19)	\$ 0.02	\$ (0.25)
	=====	=====	=====
Weighted Average Common Shares Outstanding - Basic.	42,180,000	82,726,000	\$ 41,811,000
	=====	=====	=====
Diluted Earnings (Loss) per Common Share:			
Continuing Operations.	\$ (0.06)	\$ 0.02	\$ (0.08)
	=====	=====	=====
Discontinued Operations.	\$ (0.13)	\$ 0.00	\$ (0.17)
	=====	=====	=====
Net Income (Loss).	\$ (0.19)	\$ 0.02	\$ (0.25)
	=====	=====	=====

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Weighted Average Common Shares Outstanding - Diluted. 42,180,000 98,508,000 41,811,000
 =====

See accompanying notes to condensed consolidated financial statements.

4

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
 SIX MONTHS ENDED JUNE 30, 2003
 (Unaudited)

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULA DEFICI
	SHARES	AMOUNT	SHARES	AMOUNT		
BALANCES, December 31, 2002	331,000	\$ -	44,862,000	\$ -	\$59,832,000	\$ (73,382,
Warrant discount accretion ..	-	-	-	-	26,000	(26,
Warrants Exercised.	-	-	8,712,000	-	-	
Common stock options exercised	-	-	2,945,000	-	663,000	
Preferred stock conversion to common stock	(204,000)	-	27,299,000	-	-	
Preferred stock dividends accrued.	-	-	-	-	971,000	(971,
Net income (loss).	-	-	-	-	-	5,167,
Foreign currency translation	-	-	-	-	-	
Comprehensive income	-	-	-	-	-	
BALANCES, June 30, 2003.	127,000	\$ -	83,818,000	\$ 1,000	\$61,491,000	\$ (69,212,

See accompanying notes to condensed consolidated financial statements.

5

BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (8,990,000)	\$ 5,167,000

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Adjustments to reconcile net income (loss) to net cash provided by operating activities:

Depreciation and amortization	574,000	499,000
Gain on sale of assets	45,000	-
Non cash write off of the net assets of discounted operations.	3,495,000	-
Other non-cash charges	-	578,000
	-----	-----
Net cash provided by (used in) operating activities before changes in operating assets and liabilities:	(4,876,000)	6,244,000
Receivables	234,000	(5,310,000)
Restricted Assets	448,000	69,000
Inventories	138,000	-
Prepaid expenses and other current assets	554,000	140,000
Other assets	124,000	1,000
Accounts payable and accrued liabilities	1,170,000	1,063,000
Change in net assets and liabilities of discontinued operations.	1,255,000	(322,000)
	-----	-----
Net cash provided by (used in) operating activities.	(953,000)	1,885,000
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment additions	(99,000)	(1,508,000)
Proceeds from sale of property and equipment	42,000	-
	-----	-----
Net cash used in investing activities.	(57,000)	(1,508,000)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock options exercised	-	663,000
Proceeds from short term senior debt financing	-	200,000
Proceeds from pledging activity	969,000	-
Payments of short term senior debt financing	-	(700,000)
Repayments to pledging arrangements	-	(59,000)
	-----	-----
Net cash provided by financing activities.	969,000	104,000
	-----	-----
Impact of foreign currency on cash	-	6,000
Net increase (decrease) in cash and cash equivalents	(41,000)	487,000
CASH AND CASH EQUIVALENTS, Beginning of Period.	303,000	261,000
	-----	-----
CASH AND CASH EQUIVALENTS, End of Period.	\$ 262,000	\$ 748,000
	=====	=====
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest	\$ 21,000	60,000
Cash paid for income taxes	-	262,000
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Stock and warrant accretions	26,000	26,000
Preferred stock dividends accrued	1,566,000	971,000
Common stock issued for settlements	49,000	-

See accompanying notes to condensed consolidated financial statements.

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

(UNAUDITED)

A. GOING CONCERN

At June 30, 2003, the Company had a working capital deficit of \$10,474,000 and a total stockholders' deficit of \$8,152,000. In addition, the Company was in default under its loan agreements with The Prudential Insurance Company of America, Specialty Finance Fund 1, LLC, and certain other loan participants in the Specialty Finance credit facility and, as a consequence, these lenders and the participants in the Specialty Finance credit facility could have accelerated the maturity of their obligations at any time. As of the filing of this quarterly report on Form 10-Q, the Company has converted the Specialty Finance notes and certain of the participation notes to equity and the Company has signed an agreement with Prudential to waive its loan defaults through December 31, 2003. Some of these obligations have been classified as current liabilities at June 30, 2003 in the accompanying condensed consolidated balance sheet due to the short term nature of the waivers. See Note F for further discussion of the Company's debt. The Company also had significant past due vendor payables at June 30, 2003.

The Company generates its revenues from prevention services and emergency response activities. Response activities are generally associated with a specific emergency or "event" whereas prevention activities are generally "non-event" related services. Event related services typically produce higher operating margins for the Company, but the frequency of occurrence varies widely and is inherently unpredictable. Non-event services typically have lower operating margins, but the volume and availability of work is more predictable. Historically the Company has relied on event driven revenues as the primary focus of its operating activity, but more recently the Company's strategy has been to achieve greater balance between event and non-event service activities. While the Company has successfully improved this balance, event related services are still the major source of revenues and operating income for the Company.

The majority of the Company's event related revenues are derived from well control events (i.e., blowouts) in the oil and gas industry. Demand for the Company's well control services is impacted by the number and size of drilling and work over projects, which fluctuate as changes in oil and gas prices affect exploration and production activities, forecasts and budgets. The Company's reliance on event driven revenues in general, and well control events in particular, impairs the Company's ability to generate predictable operating cash flows.

During the six months ended June 30, 2003, the Company's short term liquidity improved as a consequence of increased demand for its emergency response services and certain asset sales. The asset sales resulted in net proceeds (after replacement costs) to the Company of approximately \$2,000,000. A portion of these proceeds were used to repay \$700,000 plus interest owing under the Company's credit facility with Checkpoint Business, Inc. (See Note F for further discussion). The Company also applied \$400,000 of the proceeds to settle the Calicutt lawsuit (See Note G for further discussion) and to reduce payables owing to certain of the Company's significant vendors

During the six months ended June 30, 2003, there was a significant increase in demand for the Company's services and equipment, particularly internationally and specifically in the Middle East, in connection with the war in Iraq. Such increase in activity resulted in the Company generating income from operations of \$6,633,000 for the first six months of 2003. In August 2003, Prudential paid the Company \$3,887,000 to disgorge profits it inadvertently incurred under Section 16(b) of the Securities Exchange Act of 1934. This payment has substantially improved the Company's cash, working capital and stockholders' equity

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, the uncertainties surrounding the short term nature of Prudential's waivers raise substantial doubt about the ability of the Company to continue as a going concern. The accompanying consolidated

7

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.

B. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete annual financial statements. The accompanying condensed consolidated financial statements include all adjustments, including normal recurring accruals, which, in the opinion of management, are necessary in order to make the condensed consolidated financial statements not be misleading. The unaudited condensed consolidated financial statements and notes thereto and the other financial information contained in this report should be read in conjunction with the audited financial statements and notes in the Company's annual report on Form 10-K for the year ended December 31, 2002, and those reports filed previously with the Securities and Exchange Commission ("SEC"). The results of operations for the three-month and six month periods ended June 30, 2002 and 2003 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period consolidated financial statements to conform to current year presentation.

C. STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation granted under it's long-term incentive plan using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Stock-based compensation expenses associated with option grants were not recognized in the net income (loss) for the six month periods ended June 30, 2002 and 2003, as all options granted had exercise prices equal to the market value of the underlying common stock on the dates of grant. The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation:

	THREE MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2003
	-----	-----
Net income (loss) attributable to common stockholders as reported.	\$ (7,922,000)	\$ 1,589,000
Less total stock based employee compensation expense determined under fair value based method for all awards, net of tax related effects.	186,000	64,000
	-----	-----

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

Pro forma net income (loss) attributable to common stockholders	\$	(8,108,000)	\$	1,525,000

Basic net income (loss) per share				
As reported	\$	(0.19)	\$	0.02
Pro forma	\$	(0.19)	\$	0.02
Diluted net income (loss) per share				
As reported	\$	(0.19)	\$	0.02
Pro forma	\$	(0.19)	\$	0.02

D. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations ("SFAS No. 143") which covers all legally enforceable obligations associated with the retirement of tangible long-lived assets and provides the accounting and reporting requirements for such obligations. The Company adopted SFAS No. 143 effective January 1, 2003, as required. The adoption of SFAS No. 143 did not have a material impact on Company's condensed consolidated financial position or results of operations.

In December 2002, the FASB issued Accounting for Stock-Based Compensation ("SFAS No. 148") amending SFAS No. 123, to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. The three methods provided in SFAS No. 148 include (1) the prospective method which is the method currently provided for in SFAS No. 123, (2) the retroactive restatement method which would allow companies to restate all periods presented and (3) the modified prospective method which would allow companies to present the recognition provisions of all outstanding stock-based employee compensation instruments as of the beginning of the fiscal year of adoption. In addition, SFAS No. 148 amends the disclosure provisions of SFAS No. 123 to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148 does not amend SFAS No. 123 to require companies to account for their employee stock-based awards using the fair value method. However, the disclosure provisions are required for all companies with stock-based employee compensation, regardless of whether they utilize the fair method of accounting described in SFAS No. 123 or the intrinsic value method described in APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company does not currently intend to adopt the fair value method of accounting for stock-based compensation, however, it has adopted the disclosure provisions of SFAS No. 148.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN No. 46), which addresses consolidation by business enterprises of variable interest entities. FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not expect to identify any variable interest entities that must be consolidated and thus the Company does not expect the requirements of FIN No. 46 to have a material

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

impact on its financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity," ("SFAS 150") which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 for public companies. The Company does not believe that the adoption of SFAS 150 will have a significant impact on its financial statements.

E. DISCONTINUED OPERATIONS

On June 30, 2002, the Company made the decision and formalized a plan to sell the assets of its Special Services and Abasco operations. The sales proceeds were approximately \$1,041,000. The operations of these two companies are reflected as discontinued operations on the condensed consolidated statements of operations and as assets and liabilities of discontinued operations on the condensed consolidated balance sheets.

9

The following represents a condensed detail of assets and liabilities for discontinued operations adjusted for write-downs:

	DECEMBER 31, 2002	JUNE 30, 2003
	-----	-----
Receivables - net	\$ 174,000	\$ 104,000
Restricted assets	38,000	-
	-----	-----
Total assets	\$ 212,000	\$ 104,000
	=====	=====
Short term debt and current maturities of long-term debt and notes payable	\$ 32,000	\$ -
Accounts payable	801,000	427,000
Accrued liabilities	355,000	331,000
	-----	-----
Total liabilities	\$ 1,188,000	\$ 758,000
	=====	=====

Reconciliation of change in net asset value of discontinued operations:

Balance of net liability of discontinued operations at December 31, 2002	\$ (976,000)
Income from discontinued operations	15,000
Intercompany transfers	307,000

Balance of net liability of discontinued operations	

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

at June 30, 2003

\$ (654,000)

=====

F. LONG-TERM DEBT AND NOTES PAYABLE

As of June 30, 2003, the Company was not in compliance with the ratio tests for the trailing twelve month period under its loan agreement with the Prudential Insurance Company of America. Under the Prudential loan agreement, failure to comply with the ratio tests is an event of default and the note holder may, at its option, by notice in writing to the Company, declare all of the Notes to be immediately due and payable together with interest accrued thereon. On July 3, 2003, the Company reached an agreement with Prudential to waive these loan defaults through December 31, 2003. The Company issued \$2,658,931 of new subordinated notes to Prudential. As a result, Prudential agreed to waive the Company's past covenant defaults through December 31, 2003. All of the Prudential debt is still classified as current debt since the waiver is not for a full twelve month period.

As of June 30, 2003, Specialty Finance's participation interest of \$1,000,000 was outstanding as senior secured debt. The Company had not, at that time, received a waiver from Specialty Finance of defaults under their credit facility. On July 11, 2003, the Company converted this debt and the accrued interest into equity by issuing 4,956,033 shares of common stock. This note was converted to equity subsequent to June 30, 2003 and accordingly has been classified as long term in the accompanying financial statements.

On April 9, 2002, the Company entered into a loan participation agreement under which it borrowed an additional \$750,000 under its existing Senior Secured Loan Facility with Specialty Finance Fund I, LLC. The effective interest rate of the participation is 11% after taking into account rate adjustment fees. The Company also paid 3% of the borrowed amount in origination fees, paid closing expenses and issued 100,000 shares of common stock to the participation lender at closing. The participation had an initial maturity of 90 days, which was extended for an additional 90 days at the Company's option. The Company issued an additional 100,000 shares of common stock to the participation lender to extend the maturity date. On October 9, 2002, the loan extension period matured.

10

On May 2, 2002, the Company borrowed \$250,000 under the Senior Secured Loan Facility upon similar terms, except that the Company issued 33,334 shares of common stock to the participating lenders at closing and issued an additional 33,334 shares of common stock to extend the maturity of those notes for an additional 90 days. On October 25, 2002, the loan extension period matured.

On July 5, 2002, the Company entered into a loan participation agreement under which it borrowed an additional \$100,000 under its existing Senior Secured Loan Facility. The effective interest rate of the participation was 25% after taking into account rate adjustment fees. The Company also paid 3% of the borrowed amount in origination fees, paid closing expenses and issued 130,000 shares of common stock to the participation lender at closing. The participation had a maturity of 90 days. On September 28, 2002, the loan matured. On July 11, 2003, the Company converted this note and the accrued interest into equity by issuing 503,333 shares of common stock. This note was converted to equity subsequent to June 30, 2003, and accordingly has been classified as long term in the accompanying financial statements.

On July 8, 2002, the Company entered into a loan participation agreement with a certain party under which it borrowed an additional \$200,000 under its existing Senior Secured Loan Facility with Specialty Finance Fund I, LLC. The

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

effective interest rate of the participation was 16% after taking into account rate adjustment fees. The Company also paid 4% of the borrowed amount in origination fees, paid closing expenses and issued 150,000 shares of common stock to the participation lender at closing. The participation had a maturity of 90 days. On October 1, 2002, the loan matured. On July 18, 2003, the Company converted this debt and the accrued interest into equity by issuing 931,200 shares of common stock. This note was converted to equity subsequent to June 30, 2003, and accordingly has been classified as long term in the accompanying financial statements.

On December 4, 2002, the Company entered into a loan agreement with Checkpoint Business, Inc. ("Checkpoint") providing for short term working capital up to \$1,000,000. The effective interest rate of under the loan agreement was 15% per annum. Checkpoint collateral included substantially all of the assets of the Company, including the stock of the Company's Venezuelan subsidiary. As of December 31, 2002 and March 28, 2003, the Company had borrowed \$500,000 and an additional \$200,000, respectively, under this facility. On March 28, 2003, the Company paid in full the principal balance of \$700,000 and interest outstanding under its loan agreement with Checkpoint. On May 7, 2003, the Company settled Checkpoint's option to purchase its Venezuelan subsidiary and terminated Checkpoint's exclusivity rights in exchange for \$300,000 of cash and \$100,000 in notes maturing in six months.

G. COMMITMENTS AND CONTINGENCIES

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.

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.

11

H. EARNINGS PER SHARE

Basic income (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the period. The computation of diluted net income (loss) attributable to common shareholders per share reflects the potential dilution that could occur if securities or other contracts to issue common stock that are dilutive to net income attributable to common shareholders were exercised or

Edgar Filing: BOOTS & COOTS INTERNATIONAL WELL CONTROL INC - Form 10-Q

converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the Company.

The following table is a reconciliation of the basic and diluted weighted average shares outstanding for the three and six months ended June 30, 2002 and 2003:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Weighted average common shares outstanding:				
Basic:	42,180,000	82,726,000	41,811,000	68,125,000
Senior convertible debt	-	-	-	1,333,000
Convertible preferred stock	-	15,781,000	-	16,087,000
Stock purchase warrants (1)	-	-	-	-
Stock options (2)	-	1,000	-	1,000
	42,180,000	98,508,000	41,811,000	85,546,000
Diluted:				