

BOOTS & COOTS INTERNATIONAL WELL CONTROL INC  
Form 10-Q  
May 11, 2007

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

**Form 10-Q**

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

**For the Quarter Ended March 31, 2007**

**or**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-13817**

**Boots & Coots International  
Well Control, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**11-2908692**

(I.R.S. Employer Identification No.)

**7908 N. Sam Houston Parkway W., 5<sup>th</sup> Floor  
Houston, Texas**

(Address of principal executive offices)

**77064**

(Zip Code)

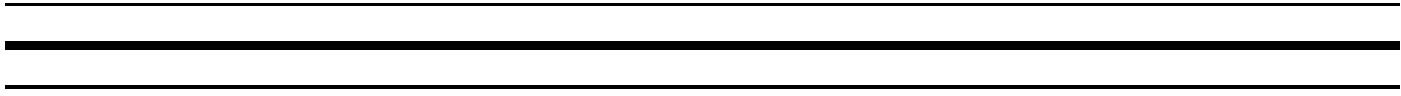
**(281) 931-8884**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule (12b-2))

Large Accelerated Filer    Accelerated Filer    Non-Accelerated  
Filer    x



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

The number of shares of the Registrant's Common Stock, par value \$.00001 per share, outstanding at May 10, 2007, was 75,025,130.

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**BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.**

**TABLE OF CONTENTS**

**PART I  
FINANCIAL INFORMATION  
(Unaudited)**

|  | <b>Page</b> |
|--|-------------|
| Item 1. <u>Financial Statements</u>  |             |
| <u>Condensed Consolidated Balance Sheets</u>   | 3           |
| <u>Condensed Consolidated Statements of Income</u>   | 4           |
| <u>Condensed Consolidated Statements of Stockholders' Equity</u>                                     | 5           |
| <u>Condensed Consolidated Statements of Cash Flows</u>   | 6           |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 7           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 15          |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | 21          |
| Item 4. <u>Controls and Procedures</u>   | 21          |

**PART II  
OTHER INFORMATION**

|  |    |
|--|----|
| Item 1. <u>Legal Proceedings</u>   | 22 |
| Item 1A. <u>Risk Factors</u>   | 22 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 23 |
| Item 3. <u>Defaults Upon Senior Securities</u>                             | 23 |
| Item 4. <u>Submissions of Matters to a Vote of Security Holders</u>        | 23 |
| Item 5. <u>Other Information</u>   | 23 |
| Item 6. <u>Exhibits</u>  | 23 |

Table of Contents

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

## ASSETS

|   | March 31,<br>2007<br>(unaudited) | December<br>31,<br>2006 |
|---|----------------------------------|-------------------------|
| <b>CURRENT ASSETS:</b>                    |                                  |                         |
| Cash and cash equivalents                 | \$ 3,972                         | \$ 5,033                |
| Restricted cash                           | 51                               | 303                     |
| Receivables, net                          | 32,683                           | 41,319                  |
| Inventory                                 | 936                              | 965                     |
| Prepaid expenses and other current assets | 5,212                            | 4,727                   |
| Total current assets                      | 42,854                           | 52,347                  |
| PROPERTY AND EQUIPMENT, net               | 45,884                           | 43,790                  |
| GOODWILL                                  | 4,326                            | 4,393                   |
| OTHER ASSETS                              | 471                              | 487                     |
| Total assets                              | \$ 93,535                        | \$ 101,017              |

## LIABILITIES AND STOCKHOLDERS' EQUITY

|   |          |          |
|---|----------|----------|
| <b>CURRENT LIABILITIES:</b>                                 |          |          |
| Current maturities of long-term debt                        | \$ 1,940 | \$ 1,940 |
| Accounts payable  | 7,933    | 7,475    |
| Foreign income tax payable                                  | 1,352    | 5,020    |
| Accrued liabilities   | 6,788    | 12,400   |
| Total current liabilities                                   | 18,013   | 26,835   |
| LONG-TERM DEBT AND NOTES PAYABLE, net of current maturities | 29,772   | 29,492   |
| DEFERRED TAXES  | 4,520    | 4,520    |
| OTHER LIABILITIES   | 1,646    | 1,748    |
| Total liabilities   | 53,951   | 62,595   |

## COMMITMENTS AND CONTINGENCIES (Note G)

—

## STOCKHOLDERS' EQUITY:

|   |           |            |
|---|-----------|------------|
| Preferred stock (\$.00001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively)                        | —         | —          |
| Common stock (\$.00001 par value, 125,000,000 shares authorized, 59,791,000 and 59,186,000 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively) | 1         | 1          |
| Additional paid-in capital  | 95,177    | 94,479     |
| Accumulated other comprehensive loss  | (1,234)   | (1,234)    |
| Accumulated deficit   | (54,360)  | (54,824)   |
| Total stockholders' equity  | 39,584    | 38,422     |
| Total liabilities and stockholders' equity  | \$ 93,535 | \$ 101,017 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2007</b>               | <b>2006</b> |
| REVENUES   | \$ 22,257                 | \$ 11,520   |
| COST OF SALES, excluding depreciation and amortization | 13,995                    | 5,300       |
| Gross Margin   | 8,262                     | 6,220       |
| OPERATING EXPENSES                                     | 4,459                     | 2,870       |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES           | 1,003                     | 818         |
| FOREIGN CURRENCY TRANSLATION                           | 68                        | 18          |
| DEPRECIATION AND AMORTIZATION                          | 1,314                     | 572         |
| OPERATING INCOME                                       | 1,418                     | 1,942       |
| INTEREST EXPENSE, net                                  | 733                       | 557         |
| INCOME BEFORE INCOME TAXES                             | 685                       | 1,385       |
| INCOME TAX EXPENSE                                     | 221                       | 707         |
| NET INCOME   | 464                       | 678         |
| PREFERRED DIVIDEND REQUIREMENTS AND ACCRETIONS         | —                         | (616)       |
| NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS         | \$ 464                    | \$ 1,294    |
| Basic Earnings per Common Share:                       | \$ 0.01                   | \$ 0.03     |
| Weighted Average Common Shares Outstanding – Basic:    | 59,203,000                | 38,789,000  |
| Diluted Earnings per Common Share:                     | \$ 0.01                   | \$ 0.03     |
| Weighted Average Common Shares Outstanding – Diluted:  | 61,642,000                | 41,383,000  |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Three Months Ended March 31, 2007**  
**(Unaudited)**  
(000's)

|                                | Preferred Stock |        | Common Stock |        | Additional Paid - in Capital |             | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|--------------------------------|-----------------|--------|--------------|--------|------------------------------|-------------|---------------------|--------------------------------------|----------------------------|
|                                | Shares          | Amount | Shares       | Amount | Capital                      | Deficit     | Loss                | Equity                               |                            |
| BALANCES, December 31, 2006    | 0               | \$ —   | 59,186       | \$ 1   | \$ 94,479                    | \$ (54,824) | \$ (1,234)          | \$ 38,422                            |                            |
| Common stock options exercised | —               | —      | 394          | —      | 351                          | —           | —                   | 351                                  |                            |
| Restricted common stock issued | —               | —      | 211          | —      | 44                           | —           | —                   | 44                                   |                            |
| Stock based compensation       | —               | —      | —            | —      | 303                          | —           | —                   | 303                                  |                            |
| Net income                     | —               | —      | —            | —      | —                            | 464         | —                   | 464                                  |                            |
| BALANCES, March 31, 2007       | —               | \$ —   | 59,791       | \$ 1   | \$ 95,177                    | \$ (54,360) | \$ (1,234)          | \$ 39,584                            |                            |

See accompanying notes to condensed consolidated financial statements.



Table of Contents

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

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2007</b>               | <b>2006</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                           |             |
| Net income  | \$ 464                    | \$ 678      |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |             |
| Depreciation and amortization   | 1,314                     | 572         |
| Stock based compensation  | 303                       | 412         |
| Reversal of bad debt  | —                         | (118)       |
| Troubled debt restructuring interest accrual  | —                         | (598)       |
| Amortization of deferred loan costs   | —                         | 809         |
| Other non-cash charges  | 44                        | 11          |
| Gain on sale of Asset   | (130)                     | —           |
| Changes in operating assets and liabilities, net of effects of acquisition:                 |                           |             |
| Receivables   | 8,636                     | (2,974)     |
| Inventory   | 29                        | (12)        |
| Prepaid expenses and current assets   | (233)                     | (2,871)     |
| Other assets  | 83                        | 491         |
| Accounts payable and accrued liabilities  | (8,924)                   | 1,596       |
| Net cash provided by (used in) operating activities   | 1,586                     | (2,004)     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                           |             |
| Cash acquired in connection with acquisition  | —                         | 4,345       |
| Property and equipment additions  | (3,461)                   | (195)       |
| Proceeds from sale of property and equipment  | 183                       | 12          |
| Net cash provided by (used in) investing activities   | (3,278)                   | 4,162       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                           |             |
| Payments of senior debt   | —                         | (750)       |
| Payments of subordinated debt   | —                         | (5,100)     |
| Payments of term loan   | (927)                     | —           |
| Revolving credit borrowings   | 1,207                     | 750         |
| Proceeds from term loan   | —                         | 9,700       |
| Redemption of preferred stock   | —                         | (5,299)     |
| Stock options exercised   | 351                       | 122         |
| Net cash provided by (used in) financing activities   | 631                       | (577)       |
| Net increase (decrease) in cash and cash equivalents  | (1,061)                   | 1,581       |
| CASH AND CASH EQUIVALENTS, beginning of period  | 5,033                     | 2,564       |
| CASH AND CASH EQUIVALENTS, end of period  | \$ 3,972                  | \$ 4,145    |
| <b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>  |                           |             |
| Cash paid for interest  | \$ 755                    | \$ 277      |
| Cash paid for income taxes  | 3,885                     | 1,193       |

NON-CASH INVESTING AND FINANCING ACTIVITIES:

|  |   |        |
|--|---|--------|
| Preferred stock dividends accrued (reversed)       | — | (616)  |
| Common stock issued for acquisition of business    | — | 26,462 |
| Conversion of preferred stock                      | — | 1,936  |
| Long-term notes issued for acquisition of business | — | 21,614 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**BOOTS & COOTS INTERNATIONAL WELL CONTROL, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2007**  
(Unaudited)

**A. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by accounting principles generally accepted in the United States of America for complete annual financial statements. The accompanying condensed consolidated financial statements include all adjustments, including normal recurring accruals, which, in the opinion of management, are necessary in order to make the condensed consolidated financial statements not misleading. The unaudited condensed consolidated financial statements and notes thereto and the other financial information contained in this report should be read in conjunction with the audited financial statements and notes in our annual report on Form 10-K for the year ended December 31, 2006, and our reports filed previously with the Securities and Exchange Commission (“SEC”). The results of operations for the three month period ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to the prior period consolidated financial statements to conform to current period presentation.

**B. SIGNIFICANT ACCOUNTING POLICIES**

*Stock Based Compensation*— Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, consultants and directors, including employee stock options, based on estimated fair values. SFAS No. 123R supersedes our previous accounting under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) for periods beginning in fiscal year 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) relating to SFAS No. 123R. We have applied the provisions of SAB 107 in our adoption of SFAS No. 123R.

*Foreign currency*— Effective January 1, 2006, and related to our acquisition of the hydraulic well control business of Oil States International, Inc. (see “Note E – Business Combination” for more information), we changed our functional currency in Venezuela from the Venezuelan Bolivar to the U.S. Dollar. This change allows us to have one consistent functional currency after the acquisition. Accumulated other comprehensive loss reported in the consolidated statements of stockholders’ equity before January 1, 2006 totaled \$1.2 million and consisted solely of the cumulative foreign currency translation adjustment in Venezuela prior to changing our functional currency. In accordance with SFAS No. 52, “Foreign Currency Translation,” the currency translation adjustment recorded up through the date of the change in functional currency will only be adjusted in the event of a full or partial disposition of our investment in Venezuela.

The accounts of foreign subsidiaries have been translated into U.S. Dollars in accordance with SFAS No. 52, “Foreign Currency Translation.” Accordingly, foreign currency is translated to U.S. dollars for financial purposes by using the U.S. Dollar as the functional currency and exchange gains and losses, as well as translation gains and losses, are reported in income and expenses. These currency gains or losses are reported as other operating expenses. Monetary balance sheet accounts are translated using the current exchange rate in effect at the balance sheet date for assets and liabilities, and for non-monetary items, the accounts are translated at the historical exchange rate in effect when acquired. Revenues and expenses are translated at the average exchange rate for the period.

**C. RECENTLY ISSUED ACCOUNTING STANDARDS**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. The Company has not yet determined the estimated impact on its financial condition or results of operations, if any, of adopting SFAS No. 157, which becomes effective for the fiscal years beginning after November 15, 2007.

Table of Contents

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. The Company has not yet determined the estimated impact on its financial condition or results of operations, if any, of adopting SFAS No. 159, which becomes effective for the fiscal years beginning after November 15, 2007.

**D. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS**

|                                  | <b>March 31,<br/>2007<br/>(unaudited)</b> | <b>December<br/>31, 2006</b> |
|----------------------------------|---|------------------------------|
| <b>Accounts receivable, net:</b> |   |                              |
| Trade                            | \$ 19,175                                 | \$ 27,301                    |
| Unbilled Revenue                 | 13,157                                    | 13,656                       |
| Other                            | 707                                       | 718                          |
| Allowance for doubtful accounts  | (356)                                     | (356)                        |
|                                  | <b>\$ 32,683</b>                          | <b>\$ 41,319</b>             |

|                                     | <b>March 31,<br/>2007<br/>(unaudited)</b> | <b>December<br/>31, 2006</b> |
|-------------------------------------|---|------------------------------|
| <b>Property and equipment, net:</b> |   |                              |
| Land                                | \$ 571                                    | \$ 571                       |
| Leasehold                           | 2,921                                     | 2,895                        |
| Equipment                           | 36,020                                    | 35,840                       |
| Firefighting equipment              | 5,865                                     | 5,841                        |
| Furniture, fixtures and office      | 1,831                                     | 1,884                        |
| Vehicles                            | 1,396                                     | 1,308                        |
| Construction in progress            | 8,675                                     | 5,995                        |
|                                     | <b>57,279</b>                             | <b>54,334</b>                |
| Total property and equipment        | 57,279                                    | 54,334                       |
| Less: Accumulated depreciation      | (11,395)                                  | (10,544)                     |
|                                     | <b>\$ 45,884</b>                          | <b>\$ 43,790</b>             |

Table of Contents

|   | <b>March 31,<br/>2007<br/>(unaudited)</b> | <b>December<br/>31, 2006</b> |
|---|---|------------------------------|
| <b>Prepaid expenses and other current assets:</b> |   |                              |
| Prepaid taxes                                     | \$ 1,995                                  | \$ 1,509                     |
| Prepaid insurance                                 | 1,161                                     | 1,794                        |
| Other prepaid expenses and current assets         | 2,056                                     | 1,424                        |
|   | \$ 5,212                                  | \$ 4,727                     |

|  | <b>March 31,<br/>2007<br/>(unaudited)</b> | <b>December<br/>31, 2006</b> |
|--|---|------------------------------|
| <b>Accrued liabilities:</b>                  |   |                              |
| Accrued compensation and benefits            | \$ 1,611                                  | \$ 4,914                     |
| Accrued insurance                            | 175                                       | 1,046                        |
| Accrued taxes, other than foreign income tax | 2,694                                     | 2,617                        |
| Other accrued liabilities                    | 2,308                                     | 3,823                        |
|  | \$ 6,788                                  | \$ 12,400                    |

**E. BUSINESS COMBINATION**

On March 3, 2006, we acquired the hydraulic well control business (HWC) of Oil States International, Inc. (NYSE: OIS). The transaction was effective for accounting and financial purposes as of March 1, 2006. As consideration for the acquisition, we issued approximately 26.5 million shares, or approximately 45%, of our common stock and subordinated promissory notes with an aggregate balance of \$15 million, adjusted to \$21.2 million during the quarter ended June 30, 2006 to reflect a \$6.2 million adjustment for working capital acquired. Oil States International, Inc. sold 14.95 million shares of our common stock in April 2007 and now owns approximately 15% of the Company.

In accordance with SFAS No. 141, "*Business Combinations*", we used the purchase method to account for this transaction. Under the purchase method of accounting, the assets acquired and liabilities assumed from HWC were recorded at the date of acquisition at their respective fair values. In connection with the acquisition, we engaged a valuation firm to assist in the determination of the fair value of certain assets and liabilities of HWC. The purchase price, including direct acquisition costs, exceeded the fair value of acquired assets and assumed liabilities, resulting in the recognition of goodwill of approximately \$4.3 million. The total purchase price, including direct acquisition costs of \$1.4 million less cash acquired of \$4.4 million, was \$44.7 million. The purchase accounting including the price allocation has been finalized in accordance with SFAS No. 141. The operating results of HWC are included in the condensed consolidated financial statements subsequent to the March 1, 2006 effective date.

Table of Contents

The fair values of the assets acquired and liabilities assumed effective March 1, 2006 were as follows:

|                                 |           |
|---------------------------------|-----------|
| Current assets (excluding cash) | \$ 15,299 |
| Property and equipment          | 39,645    |
| Goodwill                        | 4,326     |
| Total assets acquired           | 59,270    |
| Current liabilities             | 9,505     |
| Deferred taxes                  | 5,110     |
| Total liabilities assumed       | 14,615    |
| Net assets acquired             | \$ 44,655 |

In accordance with the requirements of SFAS No. 142, "Goodwill and Other Intangible Assets", the goodwill associated with the acquisition will not be amortized, but will be reviewed at least annually for impairment or more often if changes in facts and circumstances indicate a loss in value has occurred. The goodwill related to this acquisition has been assigned to the Well Intervention segment which is deemed the reporting unit for this review. In the fourth quarter of each year, the Company will perform an annual impairment assessment of goodwill based on the fair value of the Well Intervention reporting unit. The Company performed its annual review in the fourth quarter of 2006 and determined that no impairment was necessary.

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

|                            |   |
|----------------------------|---|
|                            | Three<br>Months<br>Ended<br>March 31,<br>2006 |
| Revenue                    | \$ 20,064                                     |
| Operating Income           | 3,420   |
| Net Income                 | 1,444   |
| Basic Earnings Per Share   | 0.02  |
| Diluted Earnings Per Share | 0.02  |
| Basic Shares Outstanding   | 58,123  |
| Diluted Shares Outstanding | 60,716  |

**F. LONG-TERM DEBT AND NOTES PAYABLE**

In conjunction with the acquisition of HWC on March 3, 2006, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, which established a revolving credit facility capacity totaling \$10.3 million, subject to an initial borrowing base of \$6.0 million, and a term credit facility totaling \$9.7

million. The term credit facility is payable monthly over a period of sixty months and is payable in full on March 3, 2010, subject to extension under certain circumstances to March 3, 2011. The revolving credit facility is due and payable in full on March 3, 2010, subject to a year-to-year renewal thereafter. We utilized initial borrowings under the Credit Agreement totaling \$10.5 million to repay senior and subordinated debt in full and to repurchase all of our outstanding shares of preferred stock and for other transaction related expenses. The loan balance outstanding on March 31, 2007 was \$7.4 million on the term credit facility and \$3.1 million on the revolving credit facility.



Table of Contents

At our option, borrowings under the Credit Agreement bear interest at either (i) Wells Fargo's prime commercial lending rate plus a margin ranging, as to the revolving credit facility up to 1.00%, and, as to the term credit facility, from 0.50% to 1.50% or (ii) the London Inter-Bank Market Offered Rate plus a margin ranging, as to the revolving credit facility, from 2.50% to 3.00% per annum, and, as to the term credit facility, from 3.00% to 3.50%, which margin increases or decreases based on the ratio of the outstanding principal amount under the Credit Agreement to our consolidated EBITDA. The interest rate applicable to borrowings under the revolving credit facility and the term credit facility at March 31, 2007 was 8.25% and 8.75%, respectively. Interest is accrued and payable monthly for both agreements. Fees on unused commitments under the revolving credit facility are due monthly and range from 0.25% to 0.50% per annum, based on the ratio of the outstanding principal amount under the Credit Agreement to our consolidated EBITDA.

Substantially all of our assets are pledged as collateral under the Credit Agreement. The Credit Agreement contains various restrictive covenants and compliance requirements, including: (1) maintenance of a minimum book net worth through December 31, 2006 equal to 90% of the pro forma book net worth calculated on March 1, 2006, but in no event less than \$25 million, or, for each fiscal year thereafter, equal to the greater of the minimum book net worth required for the preceding fiscal year or 85% of book net worth on the last day of the preceding fiscal year (for these purposes "book net worth" means the aggregate of our common and preferred stockholders' equity on a consolidated basis); (2) maintenance of a minimum ratio of our consolidated EBITDA less unfinanced capital expenditures to principal and interest payments required under the Credit Agreement, on a trailing twelve month basis, of 1.50 to 1.00; (3) notice within five (5) business days of making any capital expenditure exceeding \$500,000; and (4) limitation on the incurrence of additional indebtedness except for indebtedness arising under the subordinated promissory notes issued in connection with the HWC acquisition. We were in compliance with these covenants at March 31, 2007.

The \$15 million of unsecured subordinated debt issued to Oil States Energy Services, Inc. in connection with the HWC acquisition on March 3, 2006 was adjusted to \$21.2 million during the quarter ended June 30, 2006 to reflect a \$6.2 million adjustment for working capital acquired. The note bears interest at a rate of 10% per annum, and requires a one-time principal payment on September 9, 2010. Interest is accrued monthly and payable quarterly.

As of March 31, 2007 and December 31, 2006, long-term debt consisted of the following (in thousands):

|  | <b>March 31,<br/>2007</b> | <b>December<br/>31, 2006</b> |
|--|---------------------------|------------------------------|
|  | (Unaudited)               |                              |
| U.S. revolving credit facility, with available commitments up to \$10.3 million, a borrowing base of \$7.2 million and an average interest rate of 8.25% for the three month period ended March 31, 2007 | \$ 3,124                  | \$ 1,917                     |
| U.S. term credit facility with initial borrowings of \$9.7 million, payable over 60 months and an average interest rate of 8.75% for the three month period ended March, 31, 2007                        | 7,422                     | 8,349                        |
| Subordinated unsecured debt issued to Oil States Energy Services, Inc. with a fixed interest rate of 10%   | 21,166                    | 21,166                       |
| Total debt   | 31,712                    | 31,432                       |
| Less: current maturities   | (1,940)                   | (1,940)                      |
| Total long-term debt   | \$ 29,772                 | \$ 29,492                    |

**G. COMMITMENTS AND CONTINGENCIES**

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

Table of Contents**H. EARNINGS PER SHARE**

Basic and diluted income per common share is computed by dividing net income attributable to common stockholders by the weighted average common shares outstanding. The weighted average number of shares used to compute basic and diluted earnings per share for the three months ended March 31, 2007 and 2006 are illustrated below (in thousands):

|  | <b>Three Months Ended</b>       |             |
|--|---------------------------------|-------------|
|  | <b>March 31,</b><br>(unaudited) |             |
|  | <b>2007</b>                     | <b>2006</b> |
| Numerator:   |                                 |             |
| For basic and diluted earnings per share:                |                                 |             |
| Net income attributable to common stockholders           | \$ 464                          | \$ 1,294    |
| Denominator:   |                                 |             |
| For basic earnings per share-weighted-average shares     | 59,203                          | 38,789      |
| Effect of Dilutive Securities:                           |                                 |             |
| Stock options, warrants, and restricted shares           | 2,439                           | 2,594       |
| Denominator:   |                                 |             |
| For diluted earnings per share – weighted-average shares | 61,642                          | 41,383      |

The exercise price of our stock options and stock warrants varies from \$0.67 to \$3.00 per share. The maximum number of potentially dilutive securities at March 31, 2007, and 2006 would include: (1) 5,941,000 and 6,554,690 common shares, respectively, issuable upon exercise of stock options, (2) 713,000 and 921,114, common shares, respectively, issuable upon exercise of stock purchase warrants, and (3) 60,000 and 120,000 shares of common stock, respectively, with the remaining 60,000 shares to be issued as compensation in October 2007.

**I. EMPLOYEE “STOCK-BASED” COMPENSATION**

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

We adopted SFAS No. 123R using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of our fiscal year 2006. Our condensed consolidated financial statements as of and for the three months ended March 31, 2007 and 2006 reflect the impact of SFAS No. 123R. The effect on our net earnings and earnings per share before and after application of the fair value recognition provision of SFAS No. 123R to stock-based employee compensation for the three months ended March 31, 2007 and 2006 is illustrated below:

Table of Contents

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

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2007</b>                             | <b>2006</b> |
| Risk-free interest rate  | N/A                                     | 4.56%       |
| Expected dividend yield  | N/A                                     |             |
| Expected option life   | N/A                                     | 6.5 yrs     |
| Expected volatility  | N/A                                     | 95.1%       |
| Weighted average fair value of options granted at market value | N/A                                     | \$ 1.12     |
| Forfeiture rate  | N/A                                     | 2.7%        |

For the three months ended March 31, 2007, there were no stock options granted.

**J. BUSINESS SEGMENT INFORMATION**

Effective January 1, 2006, we redefined the segments in which we operate as a result of the acquisition of HWC. Our current business segments are “Well Intervention” and “Response”. Intercompany transfers between segments were not material. Our accounting policies for the operating segments are the same as those described in Note A, “Basis of Presentation”. For purposes of this presentation, operating expenses and depreciation and amortization have been charged to each segment based upon specific identification of expenses and an allocation of remaining non-segment specific expenses pro rata between segments based upon relative revenues. Selling, general and administrative and corporate expenses have been allocated between segments in proportion to their relative revenue. HWC’s results from and after March 1, 2006 are included in our consolidated operating results.

The Well Intervention segment consists of services that are designed to reduce the number and severity of critical well events and enhance production for oil and gas operators. The scope of these services includes training, contingency planning, well plan reviews, audits, inspection services and engineering services offered through our Safeguard programs and services offered in conjunction with our WELLSURE® risk management program. This segment also includes services performed by hydraulic workover and snubbing units that are used to enhance production of oil and gas wells. These units may also be used for underbalanced drilling, workover, completions and plug and abandonment services. A hydraulic unit is a specially designed rig used for moving tubulars in and out of a wellbore using hydraulic pressure. These units may be used for snubbing operations to service wells under pressure. When a unit is snubbing, it is pushing pipe or tubulars into the wellbore against wellbore pressures.

The Response segment consists of personnel, equipment and services provided during an emergency response such as a critical well event or a hazardous material response. These services include snubbing and other workover services provided during a response. These services are designed to minimize response time and mitigate damage while maximizing safety.

Information concerning segment operations for the three months ended March 31, 2007 and 2006 is presented below. Certain reclassifications have been made to the prior periods to conform to the current presentation.

Table of Contents

|   | <b>Well</b>         |                 |                     |
|---|---------------------|-----------------|---------------------|
|   | <b>Intervention</b> | <b>Response</b> | <b>Consolidated</b> |
| <b>Three Months Ended March 31, 2007:</b> |                     |                 |                     |
| Operating Revenues                        | \$ 20,844           | \$ 1,413        | \$ 22,257           |
| Operating Income(1) (2)                   | 1,064               | 354             | 1,418               |
| Identifiable Operating Assets             | 84,052              | 9,483           | 93,535              |
| Capital Expenditures                      | 3,375               | 86              | 3,461               |
| Depreciation and Amortization(1)          | 1,299               | 15              | 1,314               |
| <b>Three Months Ended March 31, 2006:</b> |                     |                 |                     |
| Operating Revenues                        | \$ 10,031           | \$ 1,489        | \$ 11,520           |
| Operating Income (loss)(1) (2)            | 1,407               | 535             | 1,942               |
| Identifiable Operating Assets             | 75,342              | 4,272           | 79,614              |
| Capital Expenditures                      | 121                 | 74              | 195                 |
| Depreciation and Amortization(1)          | 545                 | 27              | 572                 |

(1) Operating expenses and depreciation and amortization have been charged to each segment based upon specific identification of expenses and an allocation of remaining non-segment specific expenses pro rata between segments based upon relative revenues.

(2) Selling, general and administrative and corporate expenses have been allocated between segments in proportion to their relative revenue.

**K. INCOME TAXES**

Effective January 1, 2007, we adopted FASB Interpretation Number 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which is intended to clarify the accounting for income taxes by prescribing a minimum recognition threshold for a tax position before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the requirements of FIN 48, the Company evaluated all tax years still subject to potential audit under state, federal and foreign income tax law in reaching its accounting conclusions. As a result, the Company concluded it did not have any unrecognized tax benefits or any additional tax liabilities after applying FIN 48 as of the January 1, 2007 adoption date or as of the quarter ended March 31, 2007. The adoption of FIN 48 therefore had no impact to the Company's consolidated financial statements. The company recognizes interest and penalties related to uncertain tax positions in income tax expense. Tax years subsequent to 2002 remain open subject to examination by U.S. federal, state and Algerian tax jurisdictions, and tax years subsequent to 2003 remain open in Venezuela.

We have determined that as a result of the acquisition of HWC we have experienced a change of control pursuant to limitations set forth in Section 382 of the IRS rules and regulations. As a result, we will be limited to utilizing approximately \$2.1 million of U.S. net operating losses to offset taxable income generated by us during the tax year ended December 31, 2007 and expect similar dollar limits in future years until our U.S. NOL's are either completely used or expire.

**L. SUBSEQUENT EVENT**

On April 24, 2007, we concluded an underwritten public offering of 13 million shares of our common stock. The underwriters subsequently exercised their over-allotment option to purchase an additional 1.95 million shares of our common stock, which closed on April 26, 2007. We received proceeds from the offering, net of underwriting

discounts and before operating expenses, totaling approximately \$29.4 million. We intend to use \$10 million of the net proceeds to fund international expansion opportunities in Algeria, and the remainder to fund U.S. and other international expansion opportunities and for general corporate purposes.

Table of Contents

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-looking statements**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking information. Forward-looking information is based on projections, assumptions and estimates, not historical information. Some statements in this Form 10-Q are forward-looking and may be identified as such through the use of words like “may,” “may not,” “believes,” “do not believe,” “expects,” “do not expect,” “do not anticipate,” and other expressions. We may also provide oral or written forward-looking information on other materials we release to the public. Forward-looking information involves risks and uncertainties and reflects our best judgment based on current information. Our actual events and results of operations may differ materially from expectations because of inaccurate assumptions we make or by known or unknown risks and uncertainties. As a result, no forward-looking information can be guaranteed.

While it is not possible to identify all factors, the risks and uncertainties that could cause actual results to differ from our forward-looking statements include those contained in this 10-Q, our press releases and our Forms 10-Q, 8-K and 10-K filed with the United States Securities and Exchange Commission. We do not assume any responsibility to publicly update any of our forward-looking statements regardless of whether factors change as a result of new information, future events or for any other reason.

**Overview**

We provide a suite of integrated pressure control and related services to onshore and offshore oil and gas exploration and development companies, principally in North America, South America, North Africa, West Africa, and the Middle East. Our well intervention segment consists of services that are designed to enhance production for oil and gas operators and to reduce the number and severity of critical well events such as oil and gas well fires, blowouts, or other losses of control at the well. Our well intervention segment includes services performed by hydraulic workover and snubbing units that are used to enhance production of oil and gas wells. These units may be used for underbalanced drilling, workover, well completions and plugging and abandonment services. The scope of these services also includes training, contingency planning, well plan reviews, audits, inspection services, and engineering services. Our response segment consists of personnel, equipment and emergency services utilized during a critical well event.

On March 3, 2006, we acquired the hydraulic well control business (HWC) of Oil States International, Inc. The transaction was effective for accounting and financial purposes as of March 1, 2006. As consideration for HWC, we issued approximately 26.5 million shares, or approximately 45%, of our common stock and subordinated promissory notes with an aggregate balance of \$15 million, adjusted to \$21.2 million during the quarter ended June 30, 2006, after a \$6.2 million adjustment for working capital acquired. Oil States International, Inc. sold 14.95 million shares of our common stock in April 2007 and now owns approximately 15% of the Company. As a result of the acquisition, we also provide hydraulic units for emergency well control situations and various well intervention solutions involving workovers, well drilling, well completions and plugging and abandonment services. Hydraulic units may be used for both routine and emergency well control situations in the oil and gas industry. A hydraulic unit is a specially designed rig used for moving tubulars in and out of a wellbore using hydraulic pressure. These units may also be used for snubbing operations to service wells under pressure. When a unit is snubbing, it is pushing pipe or tubulars into the wellbore against wellbore pressures.

The market for emergency well control services, or critical well events, is highly volatile due to factors beyond our control, including changes in the volume and type of drilling and workover 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 such services from time to time. As a result, we experience large fluctuations in our revenues from these services. Non-critical services, reported as our Well Intervention segment, provide more stable revenues and our strategy has been, and continues to be, to expand these product and service offerings to mitigate the revenue and earnings volatility associated with critical well event services.



Table of Contents**Segment Information**

Effective January 1, 2006, we redefined the segments in which we operate as a result of our acquisition of HWC. Our current business segments are “Well Intervention” and “Response”.

The Well Intervention segment consists of services that are designed to reduce the number and severity of critical well events and enhance production for oil and gas operators. The scope of these services includes training, contingency planning, well plan reviews, audits, inspection services and engineering services offered through our Safeguard programs and services offered in conjunction with our WELLSURE® risk management program. This segment also includes services performed by hydraulic workover and snubbing units that are used to enhance production of oil and gas wells. These units may also be used for underbalanced drilling, workover, well completions and plug and abandonment services.

The Response segment consists of personnel, equipment and services provided during an emergency response such as a critical well event or a hazardous material response. These services include snubbing and other workover services provided during a response which are designed to minimize response time and mitigate damage while maximizing safety.

Intercompany transfers between segments were not material. Our accounting policies for the operating segments are the same as those described in Note A, “Basis of Presentation” and as disclosed in our annual report on Form 10-K for the year ended December 31, 2006. For purposes of this presentation, operating expenses and depreciation and amortization have been charged to each segment based upon specific identification of expenses and an allocation of remaining non-segment specific expenses pro rata between segments based upon relative revenues. 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. HWC’s operating results from and after March 1, 2006 are included in our consolidated operating results.

**Results of operations**

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto and the other financial information included in this report and contained in our periodic reports previously filed with the SEC.

Information concerning operations in different business segments for the three months ended March 31, 2007 and 2006 is presented below. Certain reclassifications have been made to the prior periods to conform to the current presentation.

|                      | <b>Three Months Ended</b> |             |
|----------------------|---------------------------|-------------|
|                      | <b>March 31,</b>          |             |
|                      | <b>2007</b>               | <b>2006</b> |
| <b>Revenues</b>      |                           |             |
| Well Intervention    | \$ 20,844                 | \$ 10,031   |
| Response             | 1,413                     | 1,489       |
|                      | \$ 22,257                 | \$ 11,520   |
| <b>Cost of Sales</b> |                           |             |
| Well Intervention    | \$ 13,801                 | \$ 5,009    |
| Response             | 194                       | 291         |

|  |    |        |    |       |
|--|----|--------|----|-------|
|  | \$ | 13,995 | \$ | 5,300 |
| <b>Operating Expenses(1)</b>                           |    |        |    |       |
| Well Intervention                                      | \$ | 3,673  | \$ | 2,340 |
| Response   |    | 786    |    | 530   |
|  | \$ | 4,459  | \$ | 2,870 |
| <b>Selling, General and Administrative Expenses(2)</b> |    |        |    |       |
| Well Intervention                                      | \$ | 1,007  | \$ | 730   |
| Response   |    | 64     |    | 106   |
|  | \$ | 1,071  | \$ | 836   |
| <b>Depreciation and Amortization(1)</b>                |    |        |    |       |
| Well Intervention                                      | \$ | 1,299  | \$ | 545   |
| Response   |    | 15     |    | 27    |
|  | \$ | 1,314  | \$ | 572   |
| <b>Operating Income</b>                                |    |        |    |       |
| Well Intervention                                      | \$ | 1,064  | \$ | 1,407 |
| Response   |    | 354    |    | 535   |
|  | \$ | 1,418  | \$ | 1,942 |

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(1) Operating expenses and depreciation and amortization have been charged to each segment based upon specific identification of expenses and an allocation of remaining non-segment specific expenses pro rata between segments based upon relative revenues.

(2) Selling, general and administrative expenses have been allocated pro rata between segments based upon relative revenues and includes foreign exchange translation gains and losses.

Table of Contents

***Comparison of the Three Months Ended March 31, 2007 with the Three Months Ended March 31, 2006***

*Revenues*

Well Intervention revenues were \$20,844,000 for the quarter ended March 31, 2007, compared to \$10,031,000 for the quarter ended March 31, 2006, representing an increase of \$10,813,000 or 107.8%, in the current quarter. The increase was primarily the result of an additional \$9,429,000 due to the inclusion of three months of HWC revenue in the current quarter compared to one month of HWC revenue in the prior year quarter. For the quarter ended March 31, 2007, Safeguard revenue increased \$2,318,000, or 61.6%, compared to the quarter ended March 31, 2006. These increases were primarily offset by the decrease of \$1,248,000 in revenue for Gulf of Mexico remediation work.

Response revenues were \$1,413,000 for the quarter ended March 31, 2007, compared to \$1,489,000 for the quarter ended March 31, 2006, a decrease of \$76,000, or 5.1% in the current quarter due to a lower level of emergency response activity.

*Cost of Sales*

Well Intervention cost of sales were \$13,801,000 for the quarter ended March 31, 2007, compared to \$5,009,000 for the quarter ended March 31, 2006, an increase of \$8,792,000, or 175.5%, in the current quarter. The increase was primarily the result of an additional \$7,197,000 due to the inclusion of three months of HWC cost in the current quarter compared to one month of HWC cost in the prior year quarter. The remaining cost increase of \$1,595,000 in the current quarter was primarily attributable to increased Safeguard activity and low margin pass through revenue in Venezuela. The increase in Well Intervention cost of sales as a percentage of revenues in the current quarter compared to the prior year quarter was primarily due to lower activity in areas with higher semi-fixed cost.

Response cost of sales were \$194,000 for the quarter ended March 31, 2007, compared to \$291,000 for the quarter ended March 31, 2006, a decrease of \$97,000 or 33.3%, due to costs associated with decreased response revenue in the current quarter.

*Operating Expenses*

Consolidated operating expenses were \$4,459,000 for the quarter ended March 31, 2007, compared to \$2,870,000 for the quarter ended March 31, 2006, an increase of \$1,589,000, or 55.4%, in the current quarter. The increase was primarily the result of an additional \$1,418,000 due to the inclusion of three months of HWC operating expense in the current quarter compared to one month of HWC operating expense in the prior year quarter. The remaining increase is due to increased Safeguard activity.

Table of Contents

*Selling, General and Administrative Expenses*

Consolidated selling, general and administrative expenses (SG&A) and other operating expenses were \$1,071,000 for the quarter ended March 31, 2007, compared to \$836,000 for the quarter ended March 31, 2006, an increase of \$235,000, or 28.1%, in the current quarter. The increase in total SG&A expense was primarily due to increases in wages, benefits, and professional fees, franchise taxes and foreign exchange translation gains and losses. During the current quarter, SG&A and other operating expenses represented 4.8% of revenues compared to 7.3% of revenues in the prior year quarter. The percentage decrease is primarily due to the increased quarter over quarter revenue base.

*Depreciation and Amortization*

Consolidated depreciation and amortization expense increased by \$742,000 in the quarter ended March 31, 2007 compared to the quarter ended March 31, 2006. The increase was primarily due to an additional \$754,000 due to the inclusion of three months of HWC depreciation in the current quarter compared to one month of HWC depreciation in the prior year quarter.

*Interest Expense and Other Expenses, net*

Net interest and other expenses increased by \$176,000 in the quarter ended March 31, 2007 compared to the prior year quarter. The interest increase of \$387,000 was primarily due to a higher debt level resulting from the debt restructuring in conjunction with the acquisition of HWC on March 3, 2006. This was offset by debt restructure credit of \$211,000.

*Income Tax Expense*

Income taxes for the quarter ended March 31, 2007 totaled \$221,000 or 32.3% of pre-tax income compared to the quarter ended March 31, 2006 of \$707,000 on pre-tax income of \$1,385,000. The decrease in the effective tax rate is largely due the anticipated utilization of foreign tax credits in 2007. The decrease in tax expense for the quarter ended March 31, 2007 compared to the prior year quarter is due to a decrease in net income before tax and the decrease in the effective tax rate.

**Liquidity and Capital Resources**

*Liquidity*

At March 31, 2007, we had working capital of \$24,841,000, including a cash balance of \$3,972,000. We ended the period with stockholders' equity of \$39,990,000. For the quarter ended March 31, 2007, we generated operating income of \$1,418,000 and net cash provided by operating activities was \$1,586,000 compared to the net cash used by operating activities of \$2,004,000 in the quarter ended March 31, 2006. Net cash used by investing activities was \$3,278,000 for the first quarter 2007 primarily to fund capital expenditures.

In early April 2007, we were notified by an existing customer in Qatar that as a result of changes to its well completion plans, it would no longer require snubbing services. As a consequence, the customer no longer required the services of a rig assist unit that we had procured and deployed to the region. Under the terms of our contract with the customer, the customer has the option to either pay us a lump cash sum of \$4.2 million, which amount is approximately equal to our costs for procuring the rig assist unit and transporting it, in which case the customer would obtain ownership over the unit; or the customer may make installment payments to us over a period of 24 months totaling approximately \$4.0 million, in which case we would retain ownership of the unit. The customer has not yet notified us of its election in this regard; however, we have notified the customer of our interest in retaining ownership

of the unit and of our willingness to consider mutually satisfactory arrangements with that objective.

18

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Table of Contents

On April 24, 2007, we concluded an underwritten public offering of 13 million shares of our common stock. The underwriters subsequently exercised their over-allotment option to purchase an additional 1.95 million shares of our common stock, which closed on April 26, 2007. We received proceeds from the offering, net of underwriting discounts and before operating expenses, totaling approximately \$29.4 million. We intend to use \$10 million of the net proceeds to fund international expansion opportunities in Algeria, and the remainder to fund U.S. and other international expansion opportunities and for general corporate purposes.

We generate our revenues by providing oilfield services centered on the prevention, emergency response and remediation of well blowouts and fires around the world. The market for emergency well control services, or critical well events, is highly volatile due to factors beyond our control, 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 such services from time to time. As a result, we experience large fluctuations in our revenues from these services. Non-critical services, reported as our Well Intervention segment, provide more stable revenues and our strategy has been, and continues to be, to expand our product and service offerings to mitigate the revenue and earnings volatility associated with critical well event services. The addition of HWC has generated additional Well Intervention service revenue in key markets and we expect that it will afford us an opportunity to expand our presence in the snubbing market.

We operate internationally, giving rise to exposure to market risks from changes in foreign currency exchange rates to the extent that transactions are not denominated in U.S. Dollars. We typically endeavor to denominate our contracts in U.S. Dollars to mitigate exposure to fluctuations in foreign currencies. On March 31, 2007, we had \$1,840,000 of cash and \$11,440,000 in accounts receivable attributable to our Venezuelan operations. Of this cash, \$1,128,000 was denominated in U.S. Dollars and resided in a U.S. bank; the remaining \$712,000 was denominated in Bolivars and resided in a Venezuelan bank. Venezuela trade accounts receivables of \$3,671,000 were denominated in Bolivars and are subject to market risks. The remaining \$7,769,000 accounts receivables are denominated in U.S. Dollars.

The Venezuelan government implemented a foreign currency control regime on February 5, 2003. This has resulted in currency controls that restrict the conversion of the Venezuelan currency, the Bolivar, to U.S. Dollars. HWC has registered with the control board (CADIVI) in order to have a portion of total receivables in U.S. dollar payments made directly to a United States bank account. Venezuela is also on the U.S. government's "watch list" for highly inflationary economies. Management continues to monitor the situation closely.

Effective January 1, 2006, and related to the acquisition of HWC, we changed our functional currency in Venezuela from the Venezuelan Bolivar to the U.S. Dollar. This change allows us to have one consistent functional currency after the acquisition. Accumulated other comprehensive loss reported in the consolidated statements of stockholders' equity before January 1, 2006 totaled \$1.2 million and consisted solely of the cumulative foreign currency translation adjustment in Venezuela prior to changing our functional currency. In accordance with SFAS No. 52, "Foreign Currency Translation," the currency translation adjustment recorded up through the date of the change in functional currency will only be adjusted in the event of a full or partial disposition of our investment in Venezuela.

Table of Contents**Disclosure of on and off balance sheet debts and commitments**

| Description                                       | Future Commitments (000's) |                  |          |           |
|---|----------------------------|------------------|----------|-----------|
|   | Total                      | Less than 1 year | 1-3years | 3-5 years |
| <b>Long and short term debt and notes payable</b> |                            |                  |          |           |
| Term loan   | \$ 7,422                   | \$ 1,940         | \$ 3,880 | \$ 1,602  |
| Revolving credit facility                         | \$ 3,124                   |                  |          | \$ 3,124  |
| Subordinated debt (a)                             | \$ 21,166                  | —                | —        | \$ 21,166 |
| <b>Future minimum lease payments</b>              | \$ 2,129                   | \$ 594           | \$ 764   | \$ 771    |
| <b>Total commitments</b>                          | \$ 33,841                  | \$ 2,534         | \$ 4,644 | \$ 26,663 |

(a) Includes \$15,000,000 of notes issued to Oil States Energy Services, Inc. and an additional \$6,166,000 adjustment for working capital acquired at March 1, 2006, in connection with the acquisition.

**Credit Facilities/Capital Resources**

In conjunction with the acquisition of HWC on March 3, 2006, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, which established a revolving credit facility capacity totaling \$10.3 million, subject to an initial borrowing base of \$6.0 million, and a term credit facility totaling \$9.7 million. The term credit facility is payable monthly over a period of sixty months and is payable in full on March 3, 2010, subject to extension under certain circumstances to March 3, 2011. The revolving credit facility is due and payable in full on March 3, 2010, subject to a year to year renewal thereafter. We utilized initial borrowings under the Credit Agreement totaling \$10.5 million to repay senior and subordinated debt in full and to repurchase all of our outstanding shares of preferred stock and for transaction related costs. The loan balance outstanding on March 31, 2007 was \$7.4 million on the term credit facility, \$3.1 million on the revolving credit facility and an additional \$1.0 million outstanding letters of credit. The revolving credit facility borrowing base was \$7.2 million at March 31, 2007, leaving \$2.5 million available to be drawn under the facility. We believe that cash on hand, cash from operations and amounts available under our credit facilities will be sufficient to meet our liquidity needs in the coming twelve months.

At our option, borrowings under the Credit Agreement bear interest at either (i) Wells Fargo's prime commercial lending rate plus a margin ranging, as to the revolving credit facility up to 1.00%, and, as to the term credit facility from 0.50% to 1.50% or (ii) the London Inter-Bank Market Offered Rate plus a margin ranging, as to the revolving credit facility, from 2.50% to 3.00% per annum, and, as to the term credit facility, from 3.00% to 3.50%, which margin increases or decreases based on the ratio of the outstanding principal amount under the Credit Agreement to our consolidated EBITDA. The interest rate applicable to borrowing under the revolving credit facility and the term credit facility at March 31, 2007 was 8.25 % and 8.75%, respectively. Fees on unused commitments under the revolving credit facility are due monthly and range from 0.25% to 0.50% per annum, based on the ratio of the outstanding principal amount under the Credit Agreement to our consolidated EBITDA.

Substantially all of our assets are pledged as collateral under the Credit Agreement. The Credit Agreement contains various restrictive covenants and compliance requirements, including: (1) maintenance of a minimum book net worth through December 31, 2006 equal to 90% of the pro forma book net worth calculated on March 1, 2006, but in no event less than \$25 million, or, for each fiscal year thereafter, equal to the greater of the minimum book net worth required for the preceding fiscal year or 85% of book net worth on the last day of the preceding fiscal year (for these purposes "book net worth" means the aggregate of our common and preferred stockholders' equity on a

consolidated basis); (2) maintenance of a minimum ratio of our consolidated EBITDA less unfinanced capital expenditures to principal and interest payments required under the Credit Agreement, on a trailing twelve month basis, of 1.50 to 1.00; (3) notice within five (5) business days of making any capital expenditure exceeding \$500,000; (4) limitation on the incurrence of additional indebtedness except for indebtedness arising under the subordinated promissory notes issued in connection with the HWC acquisition. We were in compliance with these covenants at March 31, 2007.



Table of Contents

The \$15 million of unsecured subordinated debt issued to Oil States Energy Services, Inc., in connection with the HWC acquisition has been adjusted to \$21.2 million after a \$6.2 million adjustment for working capital acquired. The note bears interest at a rate of 10% per annum, and requires a one-time principal payment on September 9, 2010.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The nature of our Response revenue stream is unpredictable from quarter to quarter and from country to country such that any history of geographic split does not represent a trend. During the first three months of 2007, foreign revenues were 78% of total revenue. Revenue generated by Venezuela and Algeria during the first three months of 2007 was 20% and 24%, respectively. Revenue generated by both Venezuela and Algeria during the first three months of 2006 was 21% and 22%, respectively. See “Liquidity and Capital Resources – Liquidity” for more information regarding our foreign currency risks.

Our debt consists of both fixed-interest and variable-interest rate debt; consequently, our earnings and cash flows, as well as the fair values of its fixed-rate debt instruments, are subject to interest-rate risk. We have performed sensitivity analyses on the variable-interest rate debt to assess the impact of this risk based on a hypothetical 10% increase in market interest rates.

We have a term loan and a revolving line of credit that are subject to the risk of loss associated with movements in interest rates. As of March 31, 2007, we had floating rate obligations totaling approximately \$10.5 million. See “Liquidity and Capital Resources – Credit Facilities/Capital Resources” for more information. These floating rate obligations expose us to the risk of increased interest expense in the event of increases in short-term interest rates. If the floating interest rate was to increase by 10% from the March 31, 2007 levels, our interest expense would increase by a total of approximately \$75,000 annually.

**Item 4. Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), as of March 31, 2007. Our Chief Executive Officer and Chief Financial Officer concluded, based upon their evaluation, that our disclosure controls and procedures are effective to ensure that the information required to be disclosed in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Table of Contents

**PART II**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

*The loss of or reduction in business from one or more of our significant current customers, or delays in projects of any such customers, could adversely affect our results of operations.*

Our business is dependent not only on securing new customers but also on maintaining current customers. Venezuela's state owned oil company and Algeria's national oil company together accounted for 41% of our consolidated revenues during the year ended March 31, 2007. Unless we are able to retain our existing customers, or secure new customers if we lose one or more of our significant customers, our revenue and results of operations would be adversely affected. Furthermore, if the projects of our significant customers are delayed or curtailed, our results of operations for the affected periods could be adversely affected.

During the first quarter of 2007, our results of operations have been adversely affected by delays in projects of our customers in Venezuela. We believe that these delays are the result of management changes within Venezuela's state owned oil company and uncertainty associated with the anticipated nationalization of Venezuela's oil and gas industry and related changes in operators of oil and gas properties. Although we expect the delayed projects to resume in due course, we cannot offer assurance as to the timing of the resumption of these projects. Continued delays could adversely affect our results of operations beyond the first quarter of 2007.

*We may invest or spend the net proceeds of the underwritten public offering of 13,000,000 and 1,950,000 shares of our common stock in a manner with which you do not agree or in ways that may not earn a profit.*

We intend to use the net proceeds from this offering to fund all or a portion of our 2007 capital budget and for general corporate purposes, including working capital. However, we will retain broad discretion over the use of the proceeds from this offering, and may use the proceeds for other purposes. You may not agree with the ways we decide to use the proceeds, and our use of the proceeds may not yield any profits.

Also see Risk Factors under Item 1A included in the Company's Form 10-K for the year ended December 31, 2006.

Table of Contents

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Default Upon Senior Securities**

None

**Item 4. Submissions of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

(a) Exhibits

| Exhibit No.  | Document                               |
|--------------|--|
| <u>*31.1</u> | §302 Certification by Jerry Winchester |
| <u>*31.2</u> | §302 Certification by Gabriel Aldape   |
| <u>*32.1</u> | §906 Certification by Jerry Winchester |
| <u>*32.2</u> | §906 Certification by Gabriel Aldape   |

\*Filed herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BOOTS & COOTS INTERNATIONAL  
WELL CONTROL, INC.

By: /s/ JERRY WINCHESTER  
Jerry Winchester  
*Chief Executive Officer*

By: /s/Gabriel Aldape  
Gabriel Aldape  
*Chief Financial Officer Principal  
Accounting Officer*

Date: May 11, 2007

