

Enservco Corp
Form 10-Q
November 14, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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 0-9494

ENSERVCO CORPORATION

(Exact Name of registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

84-0811316

(IRS Employer
Identification No.)

501 South Cherry St., Ste. 320

Denver, CO

(Address of principal executive offices)

80246

(Zip Code)

(303) 333-3678

(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 Enservco 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

Class

Common stock, \$0.005 par value

Outstanding at November 12, 2013

34,587,949

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Part I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS**

Enservco Corporation
Condensed Consolidated Balance Sheets

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,406,955	\$ 533,627
Accounts receivable, net	2,670,761	7,791,342
Prepaid expenses and other current assets	1,144,201	802,020
Inventories	298,065	273,103
Deferred tax asset	142,745	153,466
Total current assets	9,662,727	9,553,558
Property and Equipment, net	15,816,035	15,020,890
Fixed Assets Held for Sale, net	-	304,429
Non-Competition Agreements, net	-	30,000
Goodwill	301,087	301,087
Long-Term Portion of Interest Rate Swap	17,558	16,171
Other Assets	579,179	630,891
TOTAL ASSETS	\$ 26,376,586	\$ 25,857,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,071,518	\$ 3,606,645
Income taxes payable	417,320	-
Line of credit borrowings	-	2,151,052
Current portion of long-term debt	2,071,859	2,236,343
Current portion of interest rate swap	14,880	24,048
Total current liabilities	4,575,577	8,018,088
Long-Term Liabilities		
Long-term debt, less current portion	9,139,185	10,570,928
Deferred income taxes, net	2,187,506	451,662
Total long-term liabilities	11,326,691	11,022,590
Total liabilities	15,902,268	19,040,678
Commitments and Contingencies		
Stockholders' Equity	-	-

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Preferred stock. \$.005 par value, 10,000,000 shares authorized, no shares issued or outstanding		
Common stock. \$.005 par value, 100,000,000 shares authorized, 32,439,824 and 31,928,894 shares issued, respectively; 103,600 shares of treasury stock; and 32,336,224 and 31,825,294 shares outstanding, respectively	161,682	159,127
Additional paid-in-capital	10,307,808	9,864,363
Accumulated earnings (deficit)	3,181	(3,202,337)
Accumulated other comprehensive income (loss)	1,647	(4,805)
Total stockholders' equity	10,474,318	6,816,348
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 26,376,586	\$ 25,857,026

See notes to condensed consolidated financial statements.

Enservco Corporation
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$ 4,803,503	\$ 5,204,348	\$ 31,318,304	\$ 20,243,521
Cost of Revenue	4,656,508	4,848,019	20,799,074	15,930,345
Gross Profit	146,995	356,329	10,519,230	4,313,176
Operating Expenses				
General and administrative expenses	890,675	652,208	2,865,542	2,382,304
Depreciation and amortization	543,671	527,503	1,693,871	2,415,881
Total operating expenses	1,434,346	1,179,711	4,559,413	4,798,185
Income (Loss) from Operations	(1,287,351)	(823,382)	5,959,817	(485,009)
Other Income (Expense)				
Interest expense	(247,346)	(211,411)	(813,052)	(638,244)
Gain on disposals of equipment	6,842	251,875	313,299	253,411
Other income	4,600	(14,764)	29,338	65,075
Total Other Income (Expense)	(235,904)	25,700	(470,415)	(319,758)
Income (Loss) From Continued Operations, Before Tax Expense	(1,523,255)	(797,682)	5,489,402	(804,767)
Income Tax (Expense) Benefit	603,835	425,175	(2,210,169)	463,904
Income (Loss) From Continued Operations, Net of Tax	(919,420)	(372,507)	3,279,233	(340,863)
Discontinued Operations				
Loss From Discontinued Operations, Before Tax	-	(163,437)	(120,845)	(480,585)
Income Tax Benefit	-	63,740	47,130	187,428
Loss From Discontinued Operations, Net of Tax	-	(99,697)	(73,715)	(293,157)
Net Income (Loss)	\$ (919,420)	\$ (472,204)	\$ 3,205,518	\$ (634,020)
Other Comprehensive Income (Loss)				
Unrealized gain on interest rate swaps, net of tax	355	-	3,452	-
Settlements interest rate swap	7,070	-	20,890	-
Reclassified into earnings interest rate swap	(7,070)	-	(20,890)	-

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Unrealized loss on available-for-sale securities, net of tax	-	-	-	(23,073)
Total Other Comprehensive Income (Loss)	355	-	3,452	(23,073)
Comprehensive Income (Loss)	\$ (919,065)	\$ (472,204)	\$ 3,208,970	\$ (657,093)
Earnings per Common Share - Basic				
Income (loss) from continuing operations	\$ (0.03)	\$ (0.02)	\$ 0.10	\$ (0.02)
Income (loss) from discontinued operations	-	-	-	(0.01)
Total income (loss)	\$ (0.03)	\$ (0.02)	\$ 0.10	\$ (0.03)
Earnings per Common Share Diluted				
Income (loss) from continuing operations	\$ (0.03)	\$ (0.02)	\$ 0.09	\$ (0.02)
Income (loss) from discontinued operations	-	-	-	(0.01)
Total income (loss)	\$ (0.03)	\$ (0.02)	\$ 0.09	\$ (0.03)
Basic weighted average number of common shares outstanding				
	32,262,639	21,778,866	32,064,182	21,778,866
Add: Dilutive shares assuming exercise of options and warrants				
	-	-	3,572,096	-
Diluted weighted average number of common shares outstanding				
	32,262,639	21,778,866	35,636,278	21,778,866

See notes to condensed consolidated financial statements.

Enservco Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
OPERATING ACTIVITIES				
Net income (loss)	\$ (919,420)	\$ (472,204)	\$ 3,205,518	\$ (634,020)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization (includes \$17,156 and \$111,220 from discontinued operations in the three and nine months ended September 30, 2012)	543,671	544,659	1,693,871	2,527,101
Gain on disposal of equipment	(6,842)	(251,875)	(313,299)	(253,411)
Realized gain on sale of marketable securities	-	-	-	(24,653)
Deferred income taxes	(375,011)	(488,915)	1,742,462	(718,570)
Stock-based compensation	117,224	59,198	446,000	248,485
Amortization of debt issuance costs	76,944	-	230,832	-
Bad debt expense	-	10,624	170,397	8,885
Changes in operating assets and liabilities				
Accounts receivable	2,506,976	55,985	4,950,184	732,153
Inventories	(13,376)	48,978	(24,962)	34,154
Prepaid expense and other current assets	54,461	(401,514)	(342,181)	(678,000)
Other non-current assets	(10,000)	(15,904)	(179,120)	(865)
Accounts payable and accrued liabilities	194,412	1,088,996	(1,535,127)	887,160
Income taxes payable	(228,824)	-	417,320	-
Net cash provided by operating activities	1,940,215	178,028	10,461,895	2,128,419
INVESTING ACTIVITIES				
Purchases of property and equipment	(1,675,424)	(357,060)	(3,512,935)	(2,295,826)
Proceeds from sale and disposal of equipment	8,942	-	1,811,275	385,500
Sales of available-for-sale securities	-	382,000	-	180,208
Net cash provided by (used in) investing activities	(1,666,482)	24,940	(1,701,660)	(1,730,118)
FINANCING ACTIVITIES				
Net line of credit (payments) borrowings	-	5,350	(2,151,052)	400,000
Proceeds from issuance of long-term debt	-	-	-	1,359,907
Repayment of long-term debt	(601,483)	(385,792)	(1,735,855)	(2,117,574)
Net cash used in financing activities	(601,483)	(380,442)	(3,886,907)	(357,667)
Net Increase (Decrease) in Cash and Cash Equivalents	(327,750)	(177,474)	4,873,328	40,634

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Cash and Cash Equivalents, Beginning of Period	5,734,705	635,113	533,627	417,005
Cash and Cash Equivalents, End of Period	\$ 5,406,955	\$ 457,639	\$ 5,406,955	\$ 457,639
Supplemental cash flow information:				
Cash paid for interest	\$ 180,371	\$ 200,534	\$ 532,655	\$ 606,432
Cash paid for taxes	\$ -	\$ -	\$ 3,257	\$ -
Supplemental Disclosure of Non-cash Investing and Financing Activities:				
Equipment purchased through installment loans	\$ 50,037	\$ -	\$ 139,628	\$ -
Cashless exercise of stock options and warrants	\$ 719	\$ -	\$ 2,555	\$ -
Increase in fair value of available-for-sale securities	\$ -	\$ -	\$ -	\$ 29,415

See notes to condensed consolidated financial statements.

Enservco Corporation
Notes to the Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

The accompanying condensed consolidated financial statements have been derived from the accounting records of Enservco Corporation (formerly Aspen Exploration Corporation), Heat Waves Hot Oil Service, LLC (“Heat Waves”), Dillco Fluid Service, Inc. (“Dillco”), HE Services LLC (“HES”), and Real GC LLC (“Real GC”) (collectively, the “Company”) as of December 31, 2012 and September 30, 2013 and the results of operations for the three and nine months ended September 30, 2013 and 2012.

The below table provides an overview of the Company’s current ownership hierarchy:

Name	State of Formation	Ownership	Business
Dillco Fluid Service, Inc.	Kansas	100% by Enservco	Oil and natural gas field fluid logistic services.
Heat Waves Hot Oil Service LLC	Colorado	100% by Enservco	Oil and natural gas well services, including logistics and stimulation.
HE Services, LLC	Nevada	100% by Heat Waves	No active business operations. Owns construction equipment used by Heat Waves.
Real GC, LLC	Colorado	100% by Heat Waves	No active business operations. Owns real property in Garden City, Kansas that is utilized by Heat Waves.

On May 29, 2013, three of the Company’s former subsidiaries, being Trinidad Housing, LLC, Aspen Gold Mining Company, and Heat Waves, LLC, were dissolved and Enservco Frac Services, LLC is being dissolved by operation of law. None of these dissolved subsidiaries was engaged in active business operations prior to dissolution. As part of a corporate reorganization in May 2013, Dillco transferred its ownership in Heat Waves to Enservco through a tax free exchange.

The accompanying unaudited Condensed Consolidated Financial Statements were prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”), although modified in accordance with accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. The accompanying unaudited Condensed Consolidated Financial Statements follow the same accounting policies and methods of their application as the most recent annual financial statements. Accordingly, they do not include all of the disclosures required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, all of the normal and recurring adjustments necessary to fairly present the interim financial information set forth herein have been included. The results of operations for interim periods are not necessarily indicative of the operating results of a full year or of future years.

These interim financial statements should be read in conjunction with the financial statements and related footnotes included in the Company’s Annual Report on Form 10-K, as amended for the year ended December 31, 2012. All significant inter-company balances and transactions have been eliminated in the accompanying consolidated financial statements.

During the fourth quarter of 2012, the Company made the decision to discontinue its Heat Waves' well-site construction and roustabout line of service. As part of this decision, the Company had the intent and made plans during 2012 to sell off the trucks and equipment used in this line of service. The Company classified these fixed assets as *Fixed assets held for sale* in our condensed consolidated balance sheet as of December 31, 2012. During the six months ended June 30, 2013, the Company sold a majority of its assets held for sale and at June 30, 2013, decided to redeploy the remaining assets held for sale back into operations. Accordingly there are no *Fixed assets held for sale* in the condensed consolidated balance sheets as of September 30, 2013. The Company has disclosed all other major classifications of assets and liabilities associated with these discontinued operations, other than the *Fixed assets held for sale*, within the notes to the financial statements; see Note 3 for further details. The Company has also delineated all results of operations as continuing operations or discontinued operations, from the well-site construction and roustabout line of service, for the nine months ended September 30, 2013 and 2012. As such, the operating results of this line of service are reported as *Loss from discontinued operations, net of tax* in the condensed consolidated statements of operations for all periods presented; see Note 3 for further details. The Company has not separately disclosed cash flows pertaining to discontinued operations within the accompanying statements of cash flows for the three and nine months ended September 30, 2013 and 2012.

Note 2 - Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. The Company provides a reserve for doubtful accounts based on a review of outstanding receivables, historical collection information and existing economic conditions. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Company on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance. As of September 30, 2013 and December 31, 2012, the Company had an allowance for doubtful accounts of \$230,000 and \$185,000, respectively. For the three and nine months ended September 30, 2013, the Company recorded bad debt expense (net of recoveries) of \$0 and \$170,397, respectively. For the three and nine months ended September 31, 2012, the Company recorded bad debt expense (net of recoveries) of \$10,624 and \$8,885, respectively.

Inventory

Inventory consists primarily of propane, diesel fuel and chemicals used in the servicing of oil wells and is carried at the lower of cost or market in accordance with the first in, first out method. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. Write-downs and write-offs are charged to cost of goods sold.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. No impairments were recorded during the three and nine month periods ended September 30, 2013 and 2012.

Property and Equipment

Property and equipment consists of (1) trucks, trailers and pickups; (2) trucks that are in various stages of fabrication; (3) real property which includes land and buildings used for office and shop facilities and wells used for the disposal of water; and (4) other equipment such as tools used for maintaining and repairing vehicles, office furniture and fixtures, and computer equipment. Property and equipment is stated at cost less accumulated depreciation. The Company charges repairs and maintenance against income when incurred and capitalizes renewals and betterments, which extend the remaining useful life or expand the capacity of the assets. Depreciation is recorded on a straight-line basis over estimated useful lives of 5 to 30 years.

In April 2012, the Company reassessed the estimated useful lives of its trucks and equipment (including its well servicing units and equipment, fluid services equipment, construction equipment, and other vehicles) as well as the estimated useful lives of its disposal wells. Through this assessment, the Company increased the useful lives of its trucks and equipment from 5-7 years to 10 years, and increased the useful lives of its disposal wells from 7-10 years to 15 years. The Company has determined that this adjustment to its useful lives is a change in accounting estimate and has accounted for the change prospectively; i.e. the accounting change impacts interim reporting periods within fiscal year 2012 and future periods. For the three and nine months ended September 30, 2012, the change in accounting estimate decreased depreciation expense for the period by approximately \$860,000 (pre-tax difference), increasing Income (Loss) from Operations and Net Income (Loss) by this amount, or by approximately \$0.04 per basic and diluted common share.

Leases

The Company conducts a major part of its operations from leased facilities. Each of these leases is accounted for as an operating lease. Normally, the Company records rental expense on its operating leases over the lease term as it becomes payable. If rental payments are not made on a straight-line basis, in accordance with the terms of the agreement, the Company records a deferred rent expense and recognizes the rental expense on a straight-line basis throughout the lease term. The majority of the Company's facility leases contain renewal clauses and expire through November 2016. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

The Company is leasing a number of trucks and equipment in the normal course of business, which are recorded as operating leases. The Company records rental expense on its equipment operating leases over the lease term as it becomes payable; there are no rent escalation terms associated with these equipment leases. On a number of the equipment leases, purchase options exist allowing the Company to purchase the leased equipment at the end of the lease term, based on the market price of the equipment at the time of the lease termination and exercised purchase option. The majority of the Company's equipment leases contain renewal clauses and expire through June 2017.

The Company has also entered into capital leases in order to acquire trucks and equipment. Each of these leases allow the Company to retain title of the equipment leased through the lease agreements upon final payment of all principal and interest due. The Company records the assets and liabilities associated with these leases at the present value of the minimum lease payments per the lease agreement. The assets are classified as property and equipment and the liabilities are classified as current and long-term liabilities based on the contractual terms of the agreements and their associated maturities.

Revenue Recognition

The Company recognizes revenue when evidence of an arrangement exists, the fee is fixed and determinable, services are provided, and collection is reasonably assured.

Earnings Per Share

Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the diluted weighted average number of common shares. The diluted weighted average number of common shares is computed using the treasury stock method for common stock that may be issued for outstanding stock options.

As of September 30, 2013 and 2012, there were outstanding stock options and warrants to acquire an aggregate of 8,671,964 and 2,585,000 shares of Company common stock, respectively, which have a potentially dilutive impact on earnings per share. Due to the presentation of discontinued operations (see Note 3) throughout this report, in

accordance with accounting guidance, the Company presented earnings (loss) per common share from continuing and discontinued operations within its financial statements for the three and nine months ended September 30, 2013 and 2012. For the nine months ended September 30, 2013, the incremental shares of the options and warrants to be included in the calculation of diluted earnings per share had a dilutive impact on the Company's earnings per share of 3,572,096 shares. Dilution is not permitted if there are net losses during the period. As such, the Company does not show dilutive earnings per share for all other earnings (loss) per common share data presented within its financial statements for the three months ended September 30, 2013 and the three and nine months ended September 30, 2012.

Intangible Assets

Non-Competition Agreements. The non-competition agreements with the sellers of Heat Waves and Dillco have finite lives and were being amortized over a five-year period. All non-competition agreements are fully amortized as of September 30, 2013. Amortization expense for the nine months ended September 30, 2013 and 2012 totaled \$30,000 and \$135,000, respectively.

Goodwill. Goodwill represents the excess of the cost over the fair value of net assets acquired, including identified intangible assets, recorded in connection with the acquisitions of Heat Waves. Goodwill is not amortized but is assessed for impairment at least annually.

Impairment. The Company assesses goodwill for impairment at the reporting unit level on an annual basis and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value below its carrying amount. Guidance allows a qualitative assessment of impairment to determine whether it is more-likely-than-not that goodwill is impaired. If it is determined that it is more-likely-than-not that an impairment exists, accounting guidance requires that the impairment test be performed through the application of a two-step fair value test. The Company utilizes this method and recognizes a goodwill impairment loss in the event that the fair value of the reporting unit does not exceed its carrying value. During fiscal year ended December 31, 2012, the Company performed the annual impairment test and determined that no impairment existed. For the three and nine month periods ended September 30, 2013 and 2012, the Company did not note any events that occurred, nor did any circumstances change, that would require goodwill to be assessed for impairment.

Loan Fees and Other Deferred Costs

In the normal course of business, the Company enters into loan agreements with its primary lending institutions. The majority of these lending agreements require origination fees and other fees in the course of executing the agreements. For all costs associated with the execution of the lending agreements, the Company recognizes these as capitalized costs and amortizes these costs over the term of the loan agreement using the effective interest method. These deferred costs are classified on the balance sheet as current or long-term assets based on the contractual terms of the loan agreements. All other costs not associated with the execution of the loan agreements are expensed as incurred.

Income Taxes

The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities will be recognized in income in the period that includes the enactment date. Deferred income taxes are classified as a net current or non-current asset or liability based on the classification of the related asset or liability for financial reporting purposes. A deferred tax asset or liability that is not related to an asset or liability for financial reporting is classified according to the expected reversal date. The Company records a valuation allowance to reduce deferred tax assets to an amount that it believes is more likely than not expected to be realized.

The Company accounts for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company measures the tax benefits recognized in the financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, the Company is required to make many subjective

assumptions and judgments regarding income tax exposures. Interpretations of and guidance surrounding income tax law and regulations change over time and may result in changes to the Company's subjective assumptions and judgments which can materially affect amounts recognized in the consolidated balance sheets and consolidated statements of income. The result of the reassessment of the Company's tax positions did not have an impact on the consolidated financial statements.

Interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expenses. No interest or penalties have been assessed as of September 30, 2013. The Company files tax returns in the United States and in the states in which it conducts its business operations. The tax years 2009 through 2012 remain open to examination in the taxing jurisdictions to which the Company is subject.

Fair Value

The Company follows authoritative guidance that applies to all financial assets and liabilities required to be measured and reported on a fair value basis. The Company also applies the guidance to non-financial assets and liabilities measured at fair value on a nonrecurring basis, including non-competition agreements and goodwill. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The Company did not change its valuation techniques nor were there any transfers between hierarchy levels during the nine months ended September 30, 2013. The financial and nonfinancial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities;
- Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or
- Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

Stock-based Compensation

The Company uses the Black-Scholes pricing model as a method for determining the estimated fair value for all stock options awarded to employees, officers, and directors. The expected term of the options is based upon evaluation of historical and expected further exercise behavior. The risk-free interest rate is based upon U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life of the grant. Volatility is determined upon historical volatility of our stock and adjusted if future volatility is expected to vary from historical experience. The dividend yield is assumed to be none as we have not paid dividends nor do we anticipate paying any dividends in the foreseeable future.

The Company also uses the Black-Scholes valuation model to determine the fair value of warrants. Expected volatility is based upon the weighted average of historical volatility over the contractual term of the warrant and implied volatility. The risk-free interest rate is based upon implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the contractual term of the warrants. The dividend yield is assumed to be none.

Management Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Discontinued Operations

During the fourth quarter of 2012, the Company made the decision to discontinue its Heat Waves' well-site construction and roustabout line of service.

The following table provides the components of discontinued operations, net of tax:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$ -	\$ 289,786	\$ -	\$ 415,988
Cost of Revenue	-	435,770	119,882	783,885
Gross Profit	-	(145,984)	(119,882)	(367,897)
Operating Expenses				
Depreciation and amortization	-	17,156	-	111,220
Loss from Operations	-	(163,140)	(119,882)	(479,117)
Other Expense				
Interest expense	-	297	963	1,468
Loss from discontinued operations	-	(163,437)	(120,845)	(480,585)
Income tax benefit	-	63,740	47,130	187,428
Loss on discontinued operations, net of tax	\$ -	\$ (99,697)	\$ (73,715)	\$ (293,157)

The following table provides the major classes of assets and liabilities components of discontinued operations, as of:

	September 30, 2013	December 31, 2012
Accounts receivable, net	\$ -	\$ 153,754
Fixed assets held for sale, net	-	304,429
Total discontinued assets	\$ -	\$ 458,183
Accounts payable and accrued liabilities	\$ -	\$ 219,882
Total discontinued liabilities	\$ -	\$ 219,882

On March 14, 2013, the Company sold several trucks and equipment used in its construction division, which were classified as fixed assets held for sale as of December 31, 2012, for cash proceeds of \$534,000. The book value at time of sale of these assets was approximately \$233,000 and commissions of \$10,000 were paid upon sale of the trucks and equipment. As such, for the nine months ended September 30, 2013, the Company recorded a gain of approximately \$291,000 on the sale of these fixed assets held for sale. At June 30, 2013, the Company determined that the remaining few assets held for sale could be redeployed back into operations of the business and transferred assets held for sale with a net book value of \$71,342 back into property and equipment.

Note 4 - Property and Equipment

Property and equipment consists of the following:

	September 30, 2013	December 31, 2012
Trucks and vehicles	\$ 25,045,676	\$ 24,388,762
Other equipment	2,794,495	2,781,903
Buildings and improvements	2,373,570	2,403,477
Trucks in process	1,575,914	1,110,356
Land	596,420	601,420
Disposal wells	367,330	667,330
Total property and equipment	32,753,405	31,953,248
Accumulated depreciation	(16,937,370)	(16,932,358)
Property and equipment - net	\$ 15,816,035	\$ 15,020,890

Depreciation expense on property and equipment for the three months ended September 30, 2013 and 2012 totaled \$543,671 and \$529,659, respectively. Depreciation expense for the nine months ended September 30, 2013 and 2012 totaled \$1,663,871 and \$2,392,101, respectively.

Note 5 Long-Term Debt

Long-term debt consists of the following:

	September 30, 2013	December 31, 2012
Term Loan entered into as part of the debt refinancing in November 2012 with an original principal balance of \$11.0 million, payable in thirty-five fixed monthly principal installments of \$130,952 beginning November 2012, with the remaining principal due November 2, 2015. Variable rate interest of 4.25% plus 1 Month Libor (see interest rate swap disclosure below), collateralized by equipment, inventory, and accounts of the Company, entered into by the Company and two of its subsidiaries, Heat Waves Hot Oil Service, LLC and Dillco Fluid Service, Inc. (all as borrowers), and subject to financial covenants.	\$ 9,559,528	\$ 10,738,096
Real Estate Loan for a facility in North Dakota entered into with an original principal balance of \$678,750. Principal balance amended to \$705,000 during February 2012 and amended again during November 2012 to increase the principal balance by \$47,000. Upon the November 2012 amendment, principal and interest payments of \$7,416 beginning on December 16, 2012 and ending May 16, 2022. Interest is calculated as Five Year Treasury Yield plus 3.5% with a 4.75% floor (4.75% at September 30, 2013). Loan is collateralized by land and property purchased with the loan. Subsequent to September 30, 2013, the Company repaid the obligation, in conjunction with the refinancing agreement, further discussed in Note 10.	697,401	738,097
	-	326,964

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Note payable entered into with a lending institution in order to purchase field equipment. Equipment was sold to a third-party on March 25, 2013 and proceeds were used to settle the notes payable.

Note payable to the seller of Heat Waves. The note was garnished by the Internal Revenue Service ("IRS") in 2009 and is due on demand; payable in monthly installments of \$3,000 per agreement with the IRS.

287,000 314,000

Mortgage payable to a bank, interest at 7.25%, due in monthly payments through February 2015 with a balloon payment of \$111,875 on March 15, 2015, secured by land, guaranteed by one of the Company's stockholders.

174,360 204,941

Note payable entered into with a lending institution in order to purchase field pickup trucks, interest at a fixed rate of 8.05%. Term of 60 months, due in monthly installments of \$4,688 through September 2016, secured by equipment purchase with the note.

149,384 181,413

Mortgage payable to a bank, interest at 5.9%, payable in monthly payments through January 2017 with a balloon payment of \$88,118 on February 1, 2017, secured by land.

129,486 137,507

Notes payable to a vehicle finance company, interest at fixed rates from 4.89% to 10.25%, due in monthly installments through August 2015, secured by vehicles, guaranteed by one of the stockholders.

47,562 68,476

Capital leases entered into with a leasing company in order to purchase trucks and trailers, interest at a fixed rate of 5%. Truck lease term of 24 months, due in monthly installments through September 2012. Trailer lease term of 36 months, payments due in monthly installments through October 2013.

874 62,308

Note payable entered into with a lending institution in order to purchase equipment, interest at a fixed rate of 8.2%. Truck lease term of 60 months, due in monthly installments through January 2017, secured by equipment purchased with the note.

29,834 35,469

Notes payable entered into with a lending institution in order to purchase field pickup trucks, interest at a fixed rate of 4.85%. Term of 60 months, due in monthly installments ending on various dates through September 2018, secured by equipment purchased with the note.

135,615 -

Total

11,211,044 12,807,271

Less current portion

(2,071,859) (2,236,343)

Long-term debt, net of current portion

\$ 9,139,185 \$ 10,570,928

Aggregate maturities of debt are as follows:

Twelve Months Ending September 30,	
2014	\$2,071,859
2015	1,880,158
2016	6,588,712
2017	192,225
2018	93,155
Thereafter	384,935
Total	\$11,211,044

Revolving Line of Credit

As of September 30, 2013 and December 31, 2012, the outstanding balance on the revolving line of credit with our primary lender was \$0 and \$2,151,052, respectively.

Interest Rate Swap

On November 13, 2012 the Company entered into an Interest Rate Swap Agreement (“swap”) with PNC in order to hedge the cash flow requirements for the variable interest rate associated with the Term Loan. The floating variable interest rate associated with the Term Loan debt of 4.25% plus LIBOR was swapped for a fixed rate of 4.25% plus 0.64% for the duration of the Term Loan. At September 30, 2013, an updated valuation was performed resulting in a current liability of \$14,880 and a long-term asset of \$17,558 associated with the swap. The Company determined that there was no ineffectiveness to the cash flow hedge and recorded changes in value to other comprehensive income.

Note 6 Income Taxes

Income tax expense during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income, plus any significant unusual or infrequently occurring items which are recorded in the interim period. The provision for income taxes for the nine months ended September 30, 2013 and 2012 differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 34% to pre-tax income primarily because of state income taxes and estimated permanent differences.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in various jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is obtained, additional information becomes known or as the tax environment changes.

Note 7 Commitments and Contingencies*Operating Leases*

The Company leases six facilities under lease commitments that expire through August 2017, and also leases trucks and equipment under several equipment lease commitments that expire through June 2017; all of these facility and equipment leases are accounted for as operating leases. Future minimum lease commitments for these operating lease commitments are as follows:

Twelve Months Ending September 30,	
2014	\$1,036,463
2015	737,108
2016	425,490
2017	152,593
2018	-
Total	\$2,351,654

Note 8 Warrants

In conjunction with a \$2.0 million Private Equity Transaction in November 2012, the Company granted a one-half share warrant for every full share of common stock acquired by the equity investors. As such, the Company granted warrants to purchase 2,849,714 shares of the Company's common stock, exercisable at \$0.55 per share for a five year term. Each of the warrants may be exercised on a cashless basis and have a price-reset provision if under certain circumstances the Company issues shares of its common stock (or common stock equivalents) at less than \$0.35 per share on or before October 31, 2014. The warrants also provide that subject to various conditions, the holders have piggy-back registration rights with respect to the shares of common stock that may be acquired upon the exercise of the warrants and an obligation to file a registration statement for the shares underlying those warrants before a specific date, and to obtain effectiveness thereof by September 25, 2013 (the "Registration Right"). The Company filed a registration statement for these shares which was declared effective June 21, 2013. If the Company fails to maintain the effectiveness of this registration statement, it may be subject to a penalty in cash or shares equal to 1.0% per month (prorated for any partial months), for the period(s) of time that the Company fails to maintain effectiveness of the registration statement underlying these shares. Liquidated Damages shall not exceed 8% of the original purchase price of such shares. The Company has not recorded an obligation for liquidated damages as the possibility of failing to maintain effectiveness is remote.

On November 2, 2012, pursuant to conditions within the PNC Revolving Credit, Term Loan, and Security Agreement, Mr. Michael D. Herman (the Company's Chairman and CEO) converted his \$1,477,760 outstanding subordinated debt into 4,222,000 shares of the Company's common stock. Similar to the provisions of the Private Equity Transaction above, Mr. Herman was granted warrants to purchase 2,111,000 shares of the Company's common stock. These warrants have the same terms and conditions as the warrants issued in conjunction with the stock subscription agreements, as granted on the same date thereof (i.e. exercisable at \$0.55 per share for a five year term, piggy-back registration rights, price-reset provisions, etc).

The Company issued warrants to investor relations consultants in lieu of cash fees. These warrants typically vest based on performance criteria and have terms ranging from four to five years. Each of the warrants may be exercised on a cashless basis. The warrants also provide that subject to various conditions, the holders have piggy-back registration rights with respect to the shares of common stock that may be acquired upon the exercise of the warrants. During the nine months ended September 30, 2013, the Company recognized stock-based compensation (through operating expense as general and administrative expense) of \$60,056 attributable to warrants issued in November 2012.

A summary of warrant activity for the nine months ended September 30, 2013 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Warrants Outstanding at January 1, 2013	6,160,170	\$ 0.55	4.7	\$ 1,194,932
Issued for Services	-	-		
Exercised	(905,206)	0.55		
Forfeited/Cancelled	-	-		
Outstanding at September 30, 2013	5,254,964	\$ 0.55	3.9	\$ 4,645,768
Exercisable at September 30, 2013	5,254,964	\$ 0.55	3.9	\$ 4,645,768

During the nine months ended September 30, 2013, warrants to acquire 905,206 shares of common stock were exercised by way of a cashless exercise whereby the warrant holder elected to receive 502,242 shares without payment of the exercise price and the remaining warrants for 402,964 shares were cancelled. The warrants had an intrinsic value of \$644,525 at the time of exercise. No warrants were issued during the nine months ended September 30, 2013. No warrants were issued or exercised during the nine months ended September 30, 2012.

Note 9 Stockholder's Equity

Possible Reverse Stock Split

At the Company's annual shareholder meeting held on July 25, 2013, the shareholders of the Company adopted a proposal giving the board of directors discretion to implement a reverse stock split in a ratio between one-for-two (1:2) up to one-for-three (1:3), or anywhere in between, while maintaining or reducing the number of authorized shares of common stock and preferred stock at any proportion which the Board of Directors may deem appropriate in its discretion. At September 30, 2013, the Company's board of directors had not exercised its discretion to implement a stock split.

Stock Option Plans

On July 27, 2010 the Company's board of directors adopted the 2010 Stock Incentive Plan (the "2010 Plan"). The aggregate number of shares of common stock that may be granted under the 2010 Plan is reset at the beginning of each year based on 15% of the number of shares of common stock then outstanding. As such, on January 1, 2013 the number of shares of common stock available under the 2010 Plan was reset to 4,773,794 shares based upon 31,825,294 shares outstanding on that date. Options are typically granted with an exercise price equal to the estimated fair value of the Company's common stock at the date of grant with a vesting schedule of one to three years and a contractual term of 5 years. As of September 30, 2013, there were 3,067,000 options outstanding under the 2010 Plan.

The “2008 Equity Plan” was established by Aspen Exploration in February 2008 and was retained by the Company after the Acquisition. An aggregate of 1,000,000 common shares were reserved for issuance under the 2008 Equity Plan. On July 27, 2010, the Company terminated the 2008 Equity Plan, although such termination did not terminate or otherwise affect the contractual rights of persons who hold options to acquire common stock under the 2008 Equity Plan. As of September 30, 2013, there were 350,000 options outstanding under the 2008 Plan.

A summary of the range of assumptions used to value stock options granted for the three and nine months ended September, 2013 and 2012 are as follows:

	For the Three Months Ended		For the Nine months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Expected volatility	129%	-	129% -139%	118% -120%
Risk-free interest rate	.62%	-	.32% -.62%	.32% .37%
Dividend yield	-	-	-	-
Expected term (in years)	2.5	-	2.5 3.5	3.0 3.5

During the nine months ended September 30, 2013, the Company granted options to acquire 608,000 shares of common stock with a weighted-average grant-date fair value of \$0.81 per share. During the nine months ended September 30, 2013, options to acquire 28,332 shares of common stock were exercised by way of a cashless exercise whereby the option holder elected to receive 8,688 shares of common stock without payment of the exercise price and the remaining options for 19,644 shares were cancelled. The options had an intrinsic value of \$8,883 at the time of exercise.

During the nine months ended September 30, 2012, the Company granted options to acquire 1,270,000 shares of common stock with a weighted-average grant-date fair value of \$0.46 per share. No options were exercised during the nine months ended September 30, 2012.

The following is a summary of stock option activity for all equity plans for the nine months ended September 30, 2013:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	3,075,431	\$ 0.71	2.33	\$ 599,175
Granted	608,000	1.08		
Exercised	(28,332)	0.82		
Forfeited or Expired	(238,099)	1.54		
Outstanding at September 30, 2013	3,417,000	\$ 0.69	2.89	\$ 2,515,685
Vested or Expected to Vest at September 30, 2013	3,417,000	\$ 0.69	2.89	\$ 2,515,685
Exercisable at September 30, 2013	2,718,332	\$ 0.69	2.61	\$ 2,001,357

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the estimated fair value of the Company’s common stock on September 30, 2013, and the exercise price, multiplied by the

number of in-the-money options) that would have been received by the option holders had they exercised their options on September 30, 2013.

During the nine months ended September 30, 2013 and 2012, the Company recognized stock-based compensation costs for stock options of \$385,944 and \$248,459, respectively in general and administrative expenses. During the three months ended September 30, 2013 and 2012, the Company recognized stock-based compensation costs for stock options of \$117,224 and \$59,198, respectively. The Company currently expects all outstanding options to vest. Compensation cost is revised if subsequent information indicates that the actual number of options vested is likely to differ from previous estimates.

A summary of the status of non-vested shares underlying the options are presented below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2012	810,000	\$ 0.37
Granted	608,000	0.81
Vested	(638,330)	0.60
Forfeited	(81,002)	0.49
Non-vested at September 30, 2013	698,668	\$ 0.53

As of September 30, 2013 there was \$303,857 of total unrecognized compensation costs related to non-vested shares under the qualified stock option plans which will be recognized over the remaining weighted-average period of 1.75 years.

Note 10 Subsequent Events

On October 3, 2013, the Company refinanced its real estate loan for its facility in North Dakota described in Note 5. The terms include an original principal balance of \$720,000. Monthly payments of \$5,255 include interest at the prime rate, as defined, plus 0.5% with a 3.75% floor (3.75% at September 30, 2013). The loan is collateralized by land and building on the property and \$100,000 of the loan is guaranteed by the Company's Chief Executive Officer.

From October 1, 2013 through November 12, 2013, warrants to acquire 80,000 common shares were exercised by two accredited investors resulting in cash proceeds of \$44,000 and warrants to acquire 90,000 common shares were exercised on a cashless basis resulting in the issuance of 54,199 shares of common stock.

On November 12, 2013, the Company's Chairman and Chief Executive Officer exercised warrants to acquire 2,111,000 shares of common stock at an exercise price of \$0.55 resulting in cash proceeds to the Company of \$1,161,050.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information regarding the results of operations for the three and nine month periods ended September 30, 2013 and 2012, and our financial condition, liquidity and capital resources as of September 30, 2013, and December 31, 2012. The financial statements and the notes thereto contain detailed information that should be referred to in conjunction with this discussion.

Forward-Looking Statements:

The information discussed in this Quarterly Report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). All statements, other than statements of historical facts, included herein concerning, among other things, planned capital expenditures, future cash flows and borrowings, pursuit of potential acquisition opportunities, our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. These forward-looking statements are identified by their use of terms and phrases such as “may,” “expect,” “estimate,” “project,” “plan,” “believe,” “intend,” “achievable,” “anticipate,” “will,” “continue,” “potential” and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, among others:

- capital requirements and uncertainty of obtaining additional funding on terms acceptable to us;
- price volatility of oil and natural gas prices, and the effect that lower prices may have on our customers' demand for our services, the result of which may adversely impact our revenues and stockholders' equity;
- a decline in oil or natural gas production, and the impact of general economic conditions on the demand for oil and natural gas and the availability of capital which may impact our ability to perform services for our customers;
- the broad geographical diversity of our operations which, while expected to diversify the risks related to a slow-down in one area of operations, also adds significantly to our costs of doing business;
- constraints on us as a result of our substantial indebtedness, including restrictions imposed on us under the terms of our credit facility agreement and our ability to generate sufficient cash flows to repay our debt obligations;
- our history of losses and working capital deficits which, at times, were significant;
- adverse weather and environmental conditions;
- reliance on a limited number of customers;
- our ability to retain key members of our senior management and key technical employees;
- impact of environmental, health and safety, and other governmental regulations, and of current or pending legislation with which we and our customers must comply;
- developments in the global economy;
- changes in tax laws;
- the effects of competition;
- the effect of seasonal factors;
- further sales or issuances of our common stock and the price and volume volatility of our common stock; and
- our common stock's limited trading history.

Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in our filings with the SEC and in Part II, Item 1A of this Quarterly Report. For additional information regarding risks and uncertainties, please read our filings with the SEC under the Exchange Act and the Securities Act, including our Annual Report on Form 10-K, as amended for the fiscal year ended December 31, 2012. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this Quarterly Report. Other than as required under

securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

OVERVIEW

The Company provides fluid management and well enhancement services to the domestic onshore oil and natural gas industry. These services include frac heating, hot oiling and acidizing (well enhancement services), and water hauling, fluid disposal, frac tank rental (fluid management services) and other general oilfield services. The Company owns and operates a fleet of more than 230 specialized trucks, trailers, frac tanks and other well-site related equipment and serves customers in several major domestic oil and gas fields including the DJ Basin/Niobrara field in Colorado, the Bakken field in North Dakota, the Marcellus and Utica Shale fields in Pennsylvania and Ohio, the Green River and Powder River Basins in Wyoming and the Mississippi Lime and Hugoton Fields in Kansas and Oklahoma.

RESULTS OF OPERATIONS

The following table shows selected financial data and operating results for the periods noted. Following the table, please see management’s discussion of significant changes.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
FINANCIAL RESULTS:				