

Enservco Corp
Form 10-Q
May 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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)

84-0811316

(IRS Employer

Identification No.)

Denver, CO

80246

(Address of principal executive offices) (Zip 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.

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 (§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.

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 ☒

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Class	Outstanding at May 13, 2014
Common stock, \$.005 par value	36,552,099

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Part I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****ENSERVCO CORPORATION****Condensed Consolidated Balance Sheets**

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,114,448	\$ 1,868,190
Accounts receivable, net	17,814,928	11,685,866
Prepaid expenses and other current assets	1,293,654	923,758
Inventories	367,813	315,004
Deferred tax asset	338,973	336,561
Total current assets	20,929,816	15,129,379
Property and Equipment, net	18,217,879	17,425,828
Goodwill	301,087	301,087
Long-Term Portion of Interest Rate Swap	12,393	18,616
Other Assets	480,015	547,338
TOTAL ASSETS	\$ 39,941,190	\$ 33,422,248
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,167,423	\$ 3,102,912
Income taxes payable	2,762,913	1,278,599
Line of credit borrowings	1,158,971	-
Current portion of long-term debt	2,652,594	2,562,141
Current portion of interest rate swap	11,928	11,966
Total current liabilities	9,753,829	6,955,618
Long-Term Liabilities		
Long-term debt, less current portion	10,531,321	11,200,048
Deferred income taxes, net	2,421,517	2,421,466
Total long-term liabilities	12,952,838	13,621,514
Total liabilities	22,706,667	20,577,132

Commitments and Contingencies (Note 6)

Stockholders' Equity

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, 36,308,271 and 34,926,126 shares issued, respectively; 103,600 shares of treasury stock; and 36,204,671 and 34,822,536 shares outstanding, respectively	181,024	174,113
Additional paid-in-capital	11,768,346	11,568,033
Accumulated earnings	5,284,856	1,098,900
Accumulated other comprehensive income	297	4,070
Total stockholders' equity	17,234,523	12,845,116
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$39,941,190	\$33,422,248

See notes to condensed consolidated financial statements.

ENSERVCO CORPORATION**Condensed Consolidated Statements of Operations and Comprehensive Income****(Unaudited)**

	For the Three Months Ended March 31,	
	2014	2013
Revenues	\$25,242,045	\$18,567,166
Cost of Revenue	16,292,018	10,569,098
Gross Profit	8,950,027	7,998,068
Operating Expenses		
General and administrative expenses	1,159,985	857,073
Depreciation and amortization	677,463	563,836
Total operating expenses	1,837,448	1,420,909
Income from Operations	7,112,579	6,577,159
Other Income (Expense)		
Interest expense	(253,524)	(315,015)
Gain on disposals of equipment	14,365	306,457
Other income	6,900	14,113
Total Other (Expense) Income	(232,259)	5,555
Income Before Tax Expense	6,880,320	6,582,714
Income Tax Expense	(2,694,364)	(2,648,683)
Net Income	\$4,185,956	\$3,934,031
Other Comprehensive Income (Loss)		
Unrealized (loss) gain on interest rate swaps, net of tax	(3,773)	10,232
Settlements – interest rate swap	6,599	-
Reclassified into earnings – interest rate swap	(6,599)	338
Total Other Comprehensive (Loss) Income	(3,773)	10,570
Comprehensive Income	\$4,182,183	\$3,944,601
Earnings per Common Share – Basic	\$0.12	\$0.12
Earnings per Common Share – Diluted	\$0.11	\$0.11
Basic weighted average number of common shares outstanding	35,734,091	31,825,294

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Add: Dilutive shares assuming exercise of options and warrants	2,613,082	3,172,940
Diluted weighted average number of common shares outstanding	38,347,173	34,998,234

See notes to condensed consolidated financial statements.

ENSERVCO CORPORATION**Condensed Consolidated Statements of Cash Flows****(Unaudited)**

	For the Three Months Ended March 31,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$4,185,956	\$3,934,031
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	677,463	563,836
Gain on disposal of equipment	(14,365)	(306,457)
Deferred income taxes	51	1,156,848
Stock-based compensation	76,344	68,719
Amortization of debt issuance costs	81,324	76,944
Bad debt expense	10,000	126,234
Changes in operating assets and liabilities		
Accounts receivable	(6,139,062)	(5,755,348)
Inventories	(52,809)	8,219
Prepaid expense and other current assets	(369,896)	(486,077)
Other non-current assets	(14,001)	(175,324)
Accounts payable and accrued liabilities	64,511	(66,342)
Income taxes payable	1,484,314	1,509,297
Net cash (used in) provided by operating activities	(10,170)	654,580
INVESTING ACTIVITIES		
Purchases of property and equipment	(1,505,149)	(591,753)
Proceeds from sale and disposal of equipment	50,000	1,802,333
Net cash (used in) provided by investing activities	(1,455,149)	1,210,580
FINANCING ACTIVITIES		
Net line of credit borrowings (payments)	1,158,971	(916,605)
Proceeds from exercise of warrants	89,630	-
Proceeds from exercise of stock options	41,250	-
Repayment on long-term debt	(578,274)	(667,653)
Payments upon interest rate swap settlements	-	(11,258)
Net cash provided by (used in) financing activities	711,577	(1,595,516)
Net (Decrease) Increase in Cash and Cash Equivalents	(753,742)	269,644
Cash and Cash Equivalents, Beginning of Period	1,868,190	533,627
Cash and Cash Equivalents, End of Period	\$1,114,448	\$803,271

Supplemental cash flow information:

Cash paid for interest	\$ 212,928	\$ 235,629
Cash paid for taxes	\$ 1,210,000	\$ -

Supplemental Disclosure of Non-cash Investing and Financing Activities:

Cashless exercise of stock options and warrants	\$ 5,596	\$ -
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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 Services LLC (“Heat Waves”), Dillco Fluid Service, Inc. (“Dillco”), HE Services LLC, and Real GC LLC (collectively, the “Company”) as of December 31, 2013 and March 31, 2014 and the results of operations for the three months ended March 31, 2014 and 2013.

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 of the Company have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. 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.

The accompanying unaudited Condensed Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow the same accounting policies and methods of their application as the most recent annual financial statements. These interim financial statements should be read in conjunction with the financial statements and related footnotes included in the Annual Report on Form 10-K of Enservco Corporation for the year ended December 31, 2013. All significant inter-company balances and transactions have been eliminated in the accompanying consolidated financial statements.

The accompanying Condensed Consolidated Balance Sheet at December 31, 2013 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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 determin