Enservco Corp
Form 10-K/A
October 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-K/A

(Amendment No. 1)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2012

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from _______ to ______

Commission file number: 000-9494

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)

Issuer's telephone number: **(303) 333-3678**

Securities registered pursuant to Section 12(b) of the Securities Exchange Act: None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act:

Common Stock, $0.005 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

£ Yes S 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 (§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). SYes £ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

£ Yes S No

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. S Yes £ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. S

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 Securities Exchange Act of 1934.

Large accelerated filer £ Accelerated Filer £
Non-accelerated filer £ Smaller reporting company S
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes £ No S

The aggregate market value of the common stock held by non-affiliates of the Registrant as of June 30, 2012 was approximately $3,239,537 based upon the closing sale price of the Registrant's Common Stock of $0.55 on such date. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 15, 2013, there were 31,825,294 shares of the Registrant's common stock outstanding.

Explanatory Note

Enservco Corporation is filing this Amendment on Form 10-K/A (the "Amendment") to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as originally filed with the Securities and Exchange Commission ("SEC") on March 28, 2013 (the "Original Filing").

Unless we state otherwise or the context otherwise requires, references in this Amendment to "Enservco" and/or "the Company") refer to Enservco Corporation, a Delaware corporation and its wholly-owned subsidiaries Heat Waves Hot Oil Service, LLC ("Heat Waves") and Dillco Fluid Service, Inc. ("Dillco").

This Amendment is being filed to expand the Company's disclosure of the PNC Credit Facility in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and to add Exhibit 10.03 to Part IV – Item 15. Exhibits. These corrections do not alter or change previously reported revenue, net income or earnings per share.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, the complete text of each of Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part IV - Item 15. "Exhibits" have been amended and restated in their entirety in this Amendment. Except as described herein, this Amendment does not change any previously reported financial results or modify or update the disclosures to the Original Filing. The Amendment should be read in conjunction with the Original Filing and our other filings made with the SEC subsequent to the filing of the Original Report, including any amendments to those filings. The filing of the Amendment shall not be deemed to be an admission that the Original Filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

The Company has updated the Signature Page, the certifications attached as Exhibits 31.1, 31.2, 32.1 and 32.2 to reflect this amended filing.

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

The following discussion provides information regarding the results of operations for the years ended December 31, 2012 and 2011, and our financial condition, liquidity and capital resources as of December 31, 2012 and 2011. The financial statements and the notes thereto contain detailed information that should be referred to in conjunction with this discussion.

The following discussion and analysis should be read in conjunction with our historical consolidated financial statements and the accompanying notes included in our Annual Report on Form 10-K, as well as the Risk Factors included in our Form 10-K filed on March 28, 2013.

Cautionary Note Regarding Forward-Looking Statements

The information discussed in our annual report on Form 10-K and the Amendment 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 “potential,” “should,” “could,” 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 customer’s 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 the section entitled "Risk Factors" included elsewhere in our annual report on Form 10-K, filed on March 28, 2013. 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 section and elsewhere in our annual report and the Amendment. 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.

Company Overview and Overview of the Information Presented

The Company was incorporated as Aspen Exploration Corporation under the laws of the State of Delaware on February 28, 1980 for the primary purpose of acquiring, exploring and developing oil and natural gas and other mineral properties. On June 30, 2009, Aspen disposed of all of its remaining oil and natural gas producing assets and as a result was no longer engaged in active business operations. On June 24, 2010, Aspen entered into an Agreement and Plan of Merger and Reorganization with Dillco Fluid Service, Inc. ("Dillco") which set forth the terms by which Dillco became a wholly owned subsidiary of Aspen on July 27, 2010 (the "Merger Transaction").

On December 30, 2010, Aspen changed its name to "Enservco Corporation." As such, throughout this report the terms the "Company" and/or "Enservco" are intended to refer to the Company on a post Merger Transaction basis and as a whole, with respect to both historical and forward looking contexts. As a result of the Merger Transaction, the Company's fiscal year was modified to be the calendar year as described below.

Going forward, and subject to the availability of adequate financing, the Company expects to continue to pursue its growth strategies of exploring additional acquisitions, potentially expanding the geographic areas in which it operates, and diversifying the products and services it provides to customers, as well as making further investments in its assets and equipment. The Company may require additional debt or equity financing to fund the costs necessary to expand the services it offers. There can be no assurance that the Company will be able to raise outside capital or have access to outside funding on reasonable terms, if at all.

Accounting Treatment of the Merger

The Merger Transaction, by which Dillco became a wholly-owned subsidiary of Enservco, was treated as a "reverse acquisition" for accounting purposes. In a reverse acquisition, although Aspen was considered to be the "legal acquirer" (that is, Aspen (now Enservco Corporation) survived as the parent corporation), Dillco was the "accounting acquirer" (that is because Dillco's and its subsidiaries' business was undeniably the more significant business).

Dillco's fiscal year end was December 31, whereas prior to the Merger Transaction Aspen's fiscal year end was June 30. Because Dillco was the accounting acquirer, the Merger Transaction resulted in the Company's fiscal year end being deemed to change to December 31. Thus, starting with its Form 10-Q filed for the quarter ended September 30, 2010, the Company began filing annual and quarterly reports based on the December 31 fiscal year end of Dillco rather than the former (pre-acquisition) June 30 fiscal year end of Aspen. Although not required to complete the change of the fiscal year, more than a majority of the Company's stockholders approved that change (as well as a change to the Company's tax year) by consent.

Because of the business combination by which Dillco became a wholly owned subsidiary of Enservco, no separate discussion regarding Aspen's financial condition or results of operations are included in this report.

Discussion of Operations for the years ended December 31, 2012 and 2011

The following tables show the results of operations for the periods noted. Please see information following the table for management's discussion of significant changes.

	Years Ended December 31,			
	2012	% of Revenue	2011	% of Revenue
Revenues	$31,497,787	100%	$23,904,384	100%
Cost of Revenue	23,286,561	74%	17,828,834	75%
Gross Profit	8,211,226	26%	6,075,550	25%
Operating Expenses				
General and administrative expenses	3,550,438	11%	3,515,213	15%
Depreciation and amortization	2,960,153	10%	4,188,052	17%
Total operating expenses	6,510,591	21%	7,703,265	32%

Income (Loss) from Operations	1,700,635	5%	(1,627,715)	(7%)
Other Expense	(872,368)	(3%)	(868,018)	(4%)
Income (Loss) From Continuing Operations Before Tax (Expense) Benefit	828,267	2%	(2,495,733)	(11%)
Income Tax (Expense) Benefit	(426,779)	(1%)	897,923	4%
Income (Loss) From Continuing Operations	$401,488	1%	$(1,597,810)	(7%)
Discontinued Operations				
Loss from discontinued operations	(797,636)	(3%)	(605,650)	(2%)
Income tax benefit	311,078	1%	236,204	1%
Loss on discontinued operations, net of tax	$(486,558)	(2%)	$(369,446)	(1%)
Net Loss	$(85,070)	(1%)	$(1,967,256)	(8%)

Earnings (Loss) per Common Share – Basic		
Income from continuing operations	$0.02	$(0.07)
Discontinued operations	$(0.02)	$(0.02)
Net Loss	$(0.00)	$(0.09)
Earnings (Loss) per Common Share – Diluted		
Income from continuing operations	$0.02	$(0.07)
Discontinued operations	$(0.02)	$(0.02)
Net Loss	$(0.00)	$(0.09)
Basic weighted average number of common shares outstanding	23,389,151	21,778,866
Add: Dilutive shars assuming	927,718	—
Diluted weighted average number of common shares outstanding	24,316,869	21,778,866

	Years Ended December 31,	
	2012	2011
EBITDA* From Continuing Operations:		
Income (Loss) From Continuing Operations	$401,488	$(1,597,810)
Add (Deduct):		
Interest expense	902,152	699,230
Income tax expense (benefit)	426,779	(897,923)
Depreciation and amortization	2,960,153	4,188,052
EBITDA* From Continuing Operations	4,690,572	2,391,549
Add (Deduct):		
Stock-based compensation	279,362	576,498
Warrants issued	—	46,353
Loss on disposal of equipment	5,739	119,023
Gain on sale of investments	(24,653)	—
Other (income) expense	(10,870)	49,765
Adjusted EBITDA* From Continuing Operations	$4,940,150	$3,183,188
EBITDA* From Discontinued Operations:		
Loss From Discontinued Operations	$(486,558)	$(369,446)
Add (Deduct):		
Interest expense	1,770	7,714
Income tax benefit	(311,078)	(236,204)
Depreciation and amortization	128,935	511,588
EBITDA* From Discontinued Operations	(666,931)	(86,348)
Add (Deduct):		
Stock-based compensation	—	—
Warrants issued	—	—
Loss on disposal of equipment	—	—
Gain on sale of investments	—	—
Other (income) expense	—	—
Adjusted EBITDA* From Discontinued Operations	$(666,931)	$(86,348)

*Note: See below for discussion of the use of non-GAAP financial measurements.

Although Enservco does not have segmented business operations, which would require segment reporting within the notes of its financial statements per accounting standards, we believe that revenue by service offering may be useful to readers of our financials. The following tables set forth revenue from continuing operations for the Company's three service offerings during the years ending December 31, 2012 and 2011 (for discussion around revenue from discontinued operations, see the *Discontinued Operations* section below as well as Note 3 to our consolidated financial statements within the Form 10K accompanying this report):

	Years Ended December 31,	
	2012	2011
BY SERVICE OFFERING:		
Fluid Management [1]	$9,503,952	$9,568,718
Well Enhancement Services [2]	21,601,870	13,776,450
Well Site Construction and Roustabout Services[6]	391,965	559,216
Total Revenues	$31,497,787	$23,904,384

Enservco has also determined that an understanding of the diversity of its operations by geography is important to an understanding of its business operations. Enservco only does business in the United States, in what it believes are three geographically diverse regions. The following table sets forth revenue from continuing operations for the Company's three geographic regions during the years ending December 31, 2012 and 2011 (again, for discussion around revenue from discontinued operations, see the *Discontinued Operations* section below as well as Note 3 to our consolidated financial statements within the Form 10K accompanying this report):

	Years Ended December 31,	
	2012	2011
BY GEOGRAPHY:		
Eastern USA Region (3)	$3,566,082	$6,690,568
Rocky Mountain Region (4)	16,299,862	6,837,628
Central USA Region (5)	11,631,843	10,376,188
Total Revenues	$31,497,787	$23,904,384

Notes to tables:

(1) Water hauling/disposal and frac tank rental.

(2) Services such as frac heating, acidizing, hot oil services, and pressure testing.

(3) Consists of operations and services performed in the southern region of the Marcellus Shale formation (southwestern Pennsylvania and northern West Virginia) and the Utica Shale formation (eastern Ohio). Heat Waves is the only Company subsidiary operating in this region.

(4) Consists of western Colorado, southeastern Wyoming, western North Dakota, and eastern Montana. Heat Waves is the only Company subsidiary operating in this region.

(5) Consists of southwestern Kansas, northwestern Oklahoma, Texas panhandle, and northern New Mexico. Both Dillco and Heat Waves engage in business operations in this region.

(6) Amounts herein represent our Dillco construction and roustabout services. During 2012, the Heat Waves' construction and roustabout service line was discontinued. See Note 3 to our consolidated financial statements accompanying the Form 10K within this report for more details.

Revenues:

The approximately $7.6 million or 32% increase in our revenues from continuing operations in fiscal year 2012 as compared to fiscal year 2011 is primarily due to (i) a normal winter season during the 2012-2013 heating season (as compared to the higher-than-average temperatures and moderate weather during the prior year's winter), and (ii) due to increased heating capacity through the purchase and fabrication of additional trucks and equipment to service our well enhancement services. These factors are discussed in detail throughout this section; this section focuses on key increases in our revenues from continuing operations from our service line offerings and geographical regions, with additional discussions for any offsetting decreases. (See the *Discontinued Operations* section below for details of the revenues from discontinued operations.)

In general, on a service offering basis, the increase in revenues during 2012 included significant increases within our well enhancement services, and a slight reduction in revenues during the same period in our well site construction services. Revenues from fluid management services remained approximately the same during the twelve month period (though the revenues within this service line changed significantly on a regional level, as discussed further below).

In general, on a geographical basis, revenues from the eastern USA region decreased significantly during 2012, while revenues from operations in the Rocky Mountain region increased significantly during the same period. Revenues from operations in the Central USA region showed a slight increase during the twelve month period.

Specific factors that increased revenues during 2012, as compared to 2011:

(1) During September 2011 the Company opened two new operation centers in a) Cheyenne, Wyoming (to expand service coverage within the D-J Basin and Niobrara formation), and b) Killdeer, North Dakota (to provide new service coverage within the Bakken formation of western North Dakota and eastern Montana);

(2) During 2012 the Company expanded its heating capacity by investing in additional trucks and equipment to meet the growing demand for our frac heating and hot oiling services. As part of this expansion of trucks and equipment, the Company purchased and fabricated two new hot oil units and five double-burner frac heating units which were deployed into our Rocky Mountain region;

(3) Though the Company's Well Enhancement services of frac heating and hot oiling were affected by higher-than-average temperatures and moderate weather during the first quarter of 2011, weather patterns returned to normal during the end of the 2011-2012 heating season and again during the third and fourth quarters of 2012 which are the start of the 2012-2013 heating season. Also, due to our expansion and organic growth within our Rocky Mountain region where the winter season has a tendency to begin sooner in the fall and extend longer through the spring and summer, we were able to realize a longer heating season lasting into the summer of 2012 and we were also able to start the 2012 through 2013 heating season approximately two months sooner (beginning in mid-September 2012), as compared to prior years; and

(4) Due to our expansion and organic growth within our Rocky Mountain and Central USA regions we were also able to execute additional Fluid Management agreements with key customers during 2012. These new agreements resulted in the Company investing in additional water transports. In total, the Company purchased and fabricated two new water transports, and also leased an additional seven water transports, which were deployed into our Rocky Mountain and Central USA regions during 2012. This factor, standing on its own and not taking into account any other changes in revenues period-over-period, accounted for an increase of approximately $1.7 million of revenues generated from our Fluid Management services within these regions during 2012, as compared to 2011. See below for a discussion around the decreases in Fluid Management services within our Dillco Fluid Service, Inc operations which offset the increase in revenues from our Rocky Mountain and other Central USA

operations.

Specific factors that decreased revenues during 2012, as compared to 2011:

(1) Revenues in the Eastern USA region (the southern Marcellus Shale formation covering southwestern Pennsylvania and northern West Virginia) decreased by approximately $3.1 million during 2012, as compared to 2011. Of the decrease in 2012, approximately $2.3 million relates to Well Enhancement services and $840,000 relates to Fluid Management services. These decreases are due to;

a. Higher-than-average temperatures and moderate weather during the 2011-2012 winter season (what has been called one of the warmest winters on record); and

b. A decrease in activity and demand due to low natural gas prices in the region.

Therefore, starting late in the fourth quarter of 2011 and continuing through the first quarter of 2012, we redeployed a majority of our equipment from our operation center in the Eastern USA region to operation centers within other regions.

(2) In spite of the expansion and organic growth within our Rocky Mountain and Central USA regions during 2012 as explained above, Fluid Management services within our Dillco Fluid Service, Inc. operations (part of our Central USA region) decreased by approximately $1.0 million during 2012, as compared to 2011, due to losing a member of our Dillco Fluid Service, Inc. operations management team who took his small number of fluid service trucks and equipment and certain small, independent-customers to explore his own business opportunities.

Historical Seasonality of Revenues. Because of the seasonality of our frac heating and hot oiling business, the second and third quarters are historically our lowest revenue generating periods of our fiscal year. In addition, the revenue mix of our service offerings also changes as our Well Enhancement services (which includes frac heating and hot oiling) decrease as a percentage of total revenues and Fluid Management services and other services increase. The first and fourth quarters of our fiscal year, covering the months during what is known as our “heating season”, have historically made up approximately 60% or more of our total fiscal year revenues, with the remaining 40% historically split evenly between the second and third quarters. Thus, the revenues recognized in our quarterly financials in any given period are not indicative of the annual or quarterly revenues through the remainder of that fiscal year.

As an indication of this quarter-to-quarter seasonality, the Company earned approximately $5.5 million and $5.2 million of its 2012 revenues during the second and third quarters of 2012, respectively, while earning approximately $9.5 million and $11.3 million during the first and fourth quarters of 2012, respectively. The 2011 comparison was similar; $4.2 million and $4.3 million in revenues during the second and third quarters of 2011, respectively, as compared to approximately $9.1 million and $6.3 million during the first and fourth quarters of 2011, respectively. While the Company is pursuing various strategies to lessen these quarterly fluctuations by increasing non-seasonal business opportunities, there can be no assurance that we will be successful in doing so.

Costs of Revenues and Gross Profit:

Although revenues from continuing operations increased during fiscal year 2012, cost of revenues from continuing operations as a percentage of revenues remained relatively consistent when compared to the same period in 2011, resulting in consistent gross profit margins for both periods. (See the *Discontinued Operations* section below for details of the costs of revenues and gross profit from discontinued operations.)

This relatively consistent cost of revenues and consistent profitability rate for the two periods is primarily due to the following factors:

(1) Although historically we experience higher gross profit margins for Well Enhancement services and have historically derived approximately 55% of our consolidated revenues from this line of service, in 2012, due to new frac heating and hot oiling customers in our Rocky Mountain and Central USA regions, our Well Enhancement services consisted of approximately 65% of our 2012 consolidated revenues. The change in revenue mix increased our profitability in this service line during 2012; and

(2) Though new frac heating and hot oiling customers in our Rocky Mountain and Central USA regions provided for an increase to our revenue mix from Well Enhancement services during 2012, resulting in a positive swing in our profitability, this increased profitability was primarily realized only during the fourth quarter of 2012. As discussed throughout this report, the Company relies heavily on the ability to generate the majority of its revenues and gross profit during the heating season during the first and fourth quarters of our fiscal year (when temperatures are colder) through its frac heating and hot oiling services. As such, during the third and fourth quarters of 2011, in order to provide sufficient drivers and operators for the 2011-2012 heating season, the Company began fully staffing its operational centers with drivers and operators in order to meet the expected demand during the heating season. However, due to higher-than-expected temperatures during the 2011-2012 heating season, the expected demand for our heating services (frac heating and hot oiling) was delayed for several months. As such, during the first and second quarters of 2012, the lower-than expected revenues generated in those periods were not able to produce the same historical profit margins for those periods due to the increased direct costs incurred.

General and Administrative Expenses:

For the twelve months ended December 31, 2012, general and administrative expenses as a percentage of revenues decreased by 4%, as compared to the same period 2011. However, the dollar amount spent on our general and administrative expenses remained relatively consistent during the period. This consistency from 2012 to 2011 in dollars spent on general and administrative expenses is explained by the following factors:

Factors that increased general and administrative expenses during 2012, as compared to 2011:

(1) Professional fees and other expenses incurred in 2012 in connection with efforts to refinance our debt obligations;

(2) Costs incurred to hire outside consultants to manage and oversee our human resources and investor relations activities; and

(3) Costs incurred in order to employ and retain experienced personnel to meet corporate management and staff needs; which included increased salary, benefits, and bonus expenses during the period.

Factors that decreased general and administrative expenses during 2012, as compared to 2011:

(1) Termination of a key corporate employee during early 2012 which resulted in decreased salary and wages expense for 2012; and

(2) Elimination of non-cash expenses for stock options granted to terminated employees, primarily due to the termination of the key corporate employee noted above. (All future expenses associated with terminated employees were eliminated in the current period due to forfeiture or cancellation of the option agreements upon termination of the employees and all expenses related to any unvested stock options were reversed, resulting in a net decrease to general and administrative expense for 2012.)

Depreciation and Amortization:

Our depreciation and amortization expenses decreased as a percentage of revenues for 2012, as compared to 2011, by approximately 7%, or a decrease in depreciation and amortization expense of approximately $1.2 million or 29%. During the second quarter of 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 and of its disposal wells. This change in accounting estimate decreased depreciation for 2012 by approximately $2.6 million (pre-tax difference), as compared to 2011. This decrease in depreciation for 2012 due to the change in accounting estimate noted above was offset by an increase in depreciation by approximately $1.4 million due to property and equipment purchases during fiscal year 2011 of approximately $5.6 million and another $4.2 million in purchases during 2012 (purchase amounts include leases of approximately $282,000 and $438,000, respectively).

Results of Operations:

For 2012, the Company recognized income from operations of approximately $1.7 million. For the same period in 2011, the Company recognized a loss from operations of approximately $1.6 million. As discussed within the *Cost of Revenues and Gross Profit*, *General and Administrative Expenses,* and *Depreciation and Amortization* sections above, the approximate $3.3 million positive swing in our results from operations during 2012, as compared to 2011, was primarily a result of an approximate $7.6 million or 32% increase in revenues, with the cost of revenues from continuing operations as a percentage of revenues remaining relatively consistent year-over-year, and an approximate $1.2 million or 29% decrease in depreciation expense.

Management believes that this improvement in our results of operations reflects the beneficial effect of our expanded and increased operations (as discussed throughout this report), a focus on obtaining profitability, and the benefit of the colder weather in the first and last quarters of the year. We believe that as long as we are able to control our costs and increase our revenues as a result of our expanding geographical regions and service areas, our financial performance will continue to improve over the long run, although on a quarter-to-quarter basis, there may still be periods of loss due to the seasonality of our operations, as discussed several times herein.

Our operations in 2011 and early 2012 were negatively impacted by unseasonably warm weather which reduced our operating cash flows and limited our available working capital. Our new lending arrangements achieved in November 2012 have led toward greater operational flexibility. This has enabled Enservco to acquire more equipment and continue to expand its operations. That, plus improved weather for Enservco's operations during the first half of calendar year 2013, have led to an improvement in current assets ($9.6 million at December 31, 2012 as compared to $12.5 million at June 30, 2013) and working capital ($1.5 million at December 31, 2012 and $7.8 million at June 30, 2013). This compares favorably to negative working capital reflected on Enservco's balance sheets for September 30, 2012 ($595,000) and December 31, 2011 ($2.7 million).

At June 30, 2013, we had approximately $5.7 million of cash and cash equivalents and approximately $1.8 million available under our asset based, revolving credit facility. Cash generated from operations during the first six months of our 2013 fiscal year has significantly improved our working capital situation. Based on our existing operating performance, coupled with the November 2012 refinancing, we believe we will have adequate funds to meet operational and capital expenditure needs for the remainder of fiscal year 2013 and beyond. However, if our estimates about our future operating performance turn out to be inaccurate, or if we are unable to raise additional capital in the absence of positive future operating performance, the Company will adjust its capital expenditures accordingly.

Income Taxes:

For 2012, the Company recognized income from continuing operations before taxes of approximately $830,000. The Company recognized a tax expense on this income from continuing operations of approximately $430,000. This resulted in an effective tax rate on income from continuing operations of approximately 52%. This high effective tax rate, as compared to a generally expected corporate tax rate of 34%, is primarily due to permanent book income vs. taxable income differences and state and local income tax. See Note 13 *Taxes on Income from Continuing Operations* in the notes to the consolidated financial statements within the Form 10K filed on March 28, 2013.

Discontinued Operations:

During the year ended December 31, 2012, the Company made the decision to discontinue its Heat Waves' well-site construction and roustabout line of service. The Company, in accordance with US GAAP, has delineated all results of operations as continuing operations or discontinued operations, from the well-site construction and roustabout line of service, for the years ending December 31, 2012 and 2011. As such, the operating results of this line of service are reported as *Loss on discontinued operations, net of tax* in our consolidated statements of income for all periods presented. As permitted under US GAAP, the Company has elected to not separately disclose cash flows pertaining to discontinued operations within the accompanying statements of cash flows for the years ending December 31, 2012 and 2011.

The following table provides the components, as presented in our consolidated statements of income, of discontinued operations, net of tax:

	For the Years Ended December 31,	
	2012	2011
Revenues	$617,406	$766,287
Cost of Revenue	1,284,337	852,635
Gross Profit	(666,931)	(86,348)
Operating Expenses		
Depreciation and amortization	128,935	511,588
Loss from Operations	(795,866)	(597,936)
Other Expense		
Interest expense	1,770	7,714
Loss from discontinued operations	(797,636)	(605,650)
Income tax benefit	311,078	236,204
Loss on discontinued operations, net of tax	$(486,558)	$(369,446)

Overall discussion of the declining Revenues, Profitability, and Results of Operations, and the increasing Cost of Revenue from Discontinued Operations:

During 2011, Heat Waves' construction division, which operates Heat Waves' well-site construction and roustabout line of service, was dispatched out of our Garden City, Kansas location. Due to the declining revenues and profitability at this location, due to a significant decrease in the number of new wells being drilled in the Garden City area (revenues were primarily generated from construction and maintenance of new well pads, well lease roads, etc.), the construction assets were redeployed to our North Dakota location; located in the Killdeer, ND area to service the Bakken Shale formation.

Throughout the spring and early summer of 2012, as our equipment sat idle, the Company reassessed its ability to capture the desired and expected market share, and determined that the demand for construction crews in the ND area had decreased significantly since Heat Waves' redeployed its assets to the ND area, as compared to preliminary forecasts, due to the number of construction companies that flooded the ND area soon after Heat Waves' arrival.

Due to the inability to capture the early market share and the overall limited construction contracts awarded by E&P operators, Heat Waves was unable to realize the forecasted revenues and gross margins to make its construction division profitable, and due to the lack of profitable alternatives, decided to exit the well-site construction and roustabout line of service completely and focus its efforts and capital on its frac heating, hot oiling, and water hauling divisions. As such, in December 2012 plans were initiated to close the North Dakota construction operations and sell off all of Heat Waves' owned construction equipment to third parties.

Depreciation and Amortization from Discontinued Operations:

The depreciation expense from discontinued operations was associated with the fixed assets (trucks and equipment) utilized within the Heat Waves construction division, which operates Heat Waves' well-site construction and roustabout line of service. As discussed above, during the second quarter of 2012, the Company reassessed the estimated useful lives of its trucks and equipment (including its construction equipment). Through this assessment, the Company increased the useful lives of its trucks and equipment. This change in accounting estimate decreased depreciation on Heat Waves' construction division for 2012 by approximately $380,000 (pre-tax difference), as compared to 2011. Though the construction division leased trucks and equipment (through operating leases) to meet customer demand, as discussed above, Heat Waves' did not purchase a significant amount of new trucks and equipment to be utilized within its construction division; see the major classes of assets and liabilities from discontinued operations table and discussion below, and Note 6 in the notes to the consolidated financial statements within the Form 10K filed on March 28, 2013 for further details.

As part of the Company's decision to discontinue its Heat Waves' well-site construction and roustabout line of service, the Company had the intent and made plans during 2012 to sell off the trucks and equipment used in this line of service. As such, in accordance with US GAAP, the Company has classified these fixed assets as *Fixed assets held for sale* in our consolidated balance sheet as of December 31, 2012; see Note 6 in the notes to the consolidated financial statements within the Form 10K filed on March 28, 2013 for further details. In accordance with US GAAP, as permitted, the Company elected to present and disclose 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.

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

	December 31,	
	2012	2011
Accounts Receivable	$153,754	$87,740
Fixed Assets Held for Sale, net	304,429	412,831
Total Discontinued Assets	$458,183	$500,571
Accounts payable and accrued liabilities	219,882	29,637
Total Discontinued Liabilities	$219,882	$29,637

Fixed Assets Held for Sale

The 2012 and 2011 balances within Fixed Assets Held for Sale in the table above represent trucks and equipment association with Heat Waves' well-site construction and roustabout line of service. See Note 6 in the notes to the consolidated financial statements within the Form 10K accompanying this report for further details.

Accounts Receivable

The 2012 and 2011 balances within Accounts Receivable in the table above represent trade accounts receivable recorded in association with Heat Waves' well-site construction and roustabout line of service. These receivable balances were deemed fully collectible by the Company and no significant allowance for doubtful accounts was associated with these accounts receivable balances at December 31, 2012 and 2011.

Accounts Payable

The 2012 and 2011 balances within Accounts Payable in the table above represent trade accounts payable recorded in association with Heat Waves' well-site construction and roustabout line of service. During 2012, the majority of these payable balances were amounts owed on the leased construction equipment.

Adjusted EBITDA:*

Management believes that, for the reasons set forth below, adjusted EBITDA (even though a non-GAAP measure) is a valuable measurement of the Company's liquidity and performance and is consistent with the measurements offered by other companies in Enservco's industry. The following table presents a reconciliation of our net income to our Adjusted EBITDA for each of the periods indicated:

	Years Ended December 31,	
	2012	2011
EBITDA* From Continuing Operations:		
Income (Loss) From Continuing Operations	$401,488	$(1,597,810)

Add (Deduct):		
Interest expense	902,152	699,230
Income tax expense (benefit)	426,779	(897,923)
Depreciation and amortization	2,960,153	4,188,052
EBITDA* From Continuing Operations	4,690,572	2,391,549
Add (Deduct):		
Stock-based compensation	279,362	576,498
Warrants issued	—	46,353
Loss on disposal of equipment	5,739	119,023
Gain on sale of investments	(24,653)	—
Other (income) expense	(10,870)	49,765
Adjusted EBITDA* From Continuing Operations	$4,940,150	$3,183,188

EBITDA* From Discontinued Operations:		
Loss From Discontinued Operations	$(486,558)	$(369,446)
Add (Deduct):		
Interest expense	1,770	7,714
Income tax benefit	(311,078)	(236,204)
Depreciation and amortization	128,935	511,588
EBITDA* From Discontinued Operations	(666,931)	(86,348)
Add (Deduct):		
Stock-based compensation	—	—
Warrants issued	—	—
Loss on disposal of equipment	—	—
Gain on sale of investments	—	—
Other (income) expense	—	—
Adjusted EBITDA* From Discontinued Operations	$(666,931)	$(86,348)

*Note: See discussion to follow below for use of non-GAAP financial measurements.

Use of Non-GAAP Financial Measures: Non-GAAP results are presented only as a supplement to the financial statements and for use within management's discussion and analysis based on U.S. generally accepted accounting principles (GAAP). The non-GAAP financial information is provided to enhance the reader's understanding of the Company's financial performance, but no non-GAAP measure should be considered in isolation or as a substitute for financial measures calculated in accordance with GAAP. Reconciliations of the most directly comparable GAAP measures to non-GAAP measures are provided within the schedules attached herein.

EBITDA is defined as net income plus interest expense, income taxes, and depreciation and amortization. Adjusted EBITDA excludes from EBITDA stock-based compensation and, when appropriate, other items that management does not utilize in assessing the Company's operating performance (see list of these items to follow below). None of these non-GAAP financial measures are recognized terms under GAAP and do not purport to be an alternative to net income as an indicator of operating performance or any other GAAP measure. Management uses these non-GAAP measures in its operational and financial decision-making, believing that it is useful to eliminate certain items in order to focus on what it deems to be a more reliable indicator of ongoing operating performance and the company's ability to generate cash flow from operations. Management also believes that investors may find non-GAAP financial measures useful for the same reasons, although investors are cautioned that non-GAAP financial measures are not a substitute for GAAP disclosures.

All of the items included in the reconciliation from Net Income to EBITDA and from EBITDA to Adjusted EBITDA are either (i) non-cash items (e.g., depreciation, amortization of purchased intangibles, stock-based compensation, warrants issued, etc.) or (ii) items that management does not consider to be useful in assessing the Company's operating performance (e.g., income taxes, gain on sale of investments, loss on disposal of assets, etc.). In the case of the non-cash items, management believes that investors can better assess the company's operating performance if the measures are presented without such items because, unlike cash expenses, these adjustments do not affect the Company's ability to generate free cash flow or invest in its business.

Because not all companies use identical calculations, the Company's presentation of non-GAAP financial measures may not be comparable to other similarly titled measures of other companies. However, these measures can still be useful in evaluating the company's performance against its peer companies because management believes the measures provide users with valuable insight into key components of GAAP financial disclosures.

Changes in Adjusted EBITDA*

For 2012, Adjusted EBITDA From Continuing Operations increased by approximately $1.8 million and Adjusted EBITDA Loss From Discontinued Operations increased by approximately $580,000, as compared to 2011.

The increase of Adjusted EBITDA From Continuing Operations during 2012, as compared to 2011, was primarily due to an increase in revenues from our well enhancement services within our Rocky Mountain and Central USA regions, due to new frac heating and hot oiling customers in those regions.

The increase to Adjusted EBITDA Loss From Discontinued Operations during 2012, as compared to 2011, was primarily due to the decline in revenues in 2012, as the construction division sat idle for many months in North Dakota waiting out the winter freeze and spring thaw laws and the Company was unable to enter into any long-term contracts until the end of the summer of 2012. The decline was also due to the increase in cost of revenues associated with leasing equipment to meet customer demands and for transporting the heavy construction equipment to North Dakota when the construction division assets were redeployed in first quarter of 2011.

Liquidity and Capital Resources:

The following table summarizes our statements of cash flows for the years ended December 31, 2012 and 2011 and (combined with the working capital table and discussion below) is important for understanding our liquidity:

	Years Ended December 31,	
	2012	2011
Net cash provided from operating activities	$232,887	$2,963,149
Net cash used in investing activities	(2,480,043)	(5,016,089)
Net cash provided from financing activities	2,363,778	832,138
Net Increase (Decrease) in Cash and Cash Equivalents	116,622	(1,220,802)
Cash and Cash Equivalents, Beginning of Period	417,005	1,637,807
Cash and Cash Equivalents, End of Period	$533,627	$417,005

Note: As discussed within Note 1 – *Basis of Presentation* within the Notes to the Consolidated Financial Statements, the Company has elected to not separately disclose cash flows pertaining to discontinued operations within the accompanying statements of cash flows for the years ending December 31, 2012 and 2011.

The following table sets forth a summary of certain aspects of our balance sheets at December 31, 2012 and 2011:

	Years Ended December 31,	
	2012	2011
Current Assets	$9,553,558	$6,402,945
Total Assets (including assets of discontinued operations)	25,857,026	22,120,672
Current Liabilities	7,997,228	9,085,572
Total Liabilities	19,040,678	18,993,298
Working Capital (Current Assets net of Current Liabilities)	1,556,330	(2,682,627)
Stockholders' equity	6,816,348	3,127,374

Note: As discussed within Note 1 – *Basis of Presentation* within the Notes to the Consolidated Financial Statements, the Company has classified fixed assets associated with discontinued operations as *Fixed assets held for sale* in our consolidated balance sheet as of December 31, 2012. The Company elected to present and disclose 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 within the Notes to the Consolidated Financial Statements for further details.

In current and prior periods, we have relied on cash generated from operations and borrowings under our credit facility to satisfy our liquidity needs. Our ability to fund operating cash flow shortfalls, fund capital expenditures, and make acquisitions will depend upon our future operating performance, and more broadly, on the availability of equity and debt financing, of which there can be no assurance and which will be affected by prevailing economic conditions in our industry and financial, business and other factors, some of which are beyond our control. At December 31, 2012, we had approximately $2.8 million available under our asset based, revolving credit facility (approximately $1.8 million available at June 30, 2013).

As noted within Footnote 8 to the Consolidated Financial Statements as disclosed within the Form 10K, on November 2, 2012, the Company and PNC Bank, National Association ("PNC") entered into a Credit Agreement and other documents by which the Company and its subsidiaries refinanced substantially all of its existing indebtedness with Great Western Bank. This refinancing has positively bolstered our working capital position, as well as provided for an increased revolving credit facility. Based on our existing operating performance, coupled with the recent refinancing, we believe we will have adequate funds to meet operational and capital expenditure needs for fiscal year 2013 and beyond. However, if our estimates about our future operating performance turn out to be inaccurate, or if we are unable to raise additional capital in the absence of positive future operating performance, the Company will adjust its capital expenditures accordingly.

The PNC credit facility includes a $5.0 million revolving credit facility and an $11.0 million term loan facility. Advances under both the revolving and term loans may incur interest based upon an effective Eurodollar rate or alternate base rate for domestic loans. As of December 31, 2012, all loan advances under both the revolving credit facility and term facility bear interest based upon the Eurodollar rate.

The revolving credit facility has a variable rate interest of 3.25% plus the one month Libor and is secured with inventory and accounts of the company. The revolving credit facility also has a facility fee of .375% per annum, which is applied to any undrawn portion of the maximum revolving advance amount. The term loan has a variable interest of 4.25% plus one month Libor and is collateralized by equipment, inventory, and accounts of the Company,

The PNC credit facility has certain customary financial covenants that include, among others, (i) an annual limit on capital expenditures, (ii) a minimum fixed charge coverage ratio, and (iii) a minimum tangible net worth.

The minimum tangible net worth covenant is set annually by the lender based upon financial projections of the company and is measured on a quarterly basis. For 2012, the minimum tangible net worth requirement is $3,750,000 and for 2013 the covenant requirement ranges from $4,244,000 to $5,114,000. Enservco and the lender will determine the 2014 covenant amounts after Enservco submits its 2014 financial projections to the lender.

The fixed charge coverage ratio must be not less than 1.1:1, measured as of the last day of each fiscal quarter, and must be determined based on trailing twelve month information. The agreement defines the fixed charge coverage ratio to be the ratio of (a) adjusted EBITDA for such period minus (i) unfinanced capital expenditures made during such period and (ii) cash taxes paid during such period to (b) all senior debt payments during such period.

These financial covenants require the Company to meet certain future liquidity requirements and could restrict our ability to secure additional debt financing or access funds under our revolving credit facility.

As of December 31, 2012 we had working capital of approximately $1.6 million, an increase in working capital of approximately $4.3 million as compared to our 2011 fiscal year end. There were various components contributing to the 2012 increase in the working capital:

Factors that increased our working capital –

1. An increase in accounts receivable balances of approximately $3.3 million due to an approximate $5.1 million increase in fourth quarter 2012 revenues as compared to the same period in 2011.

2. A decrease in the current portion of the long-term debt of approximately $1.6 million due to the refinancing of our Term Loan with PNC Business Credit on November 2, 2012.

Factors that had a negative effect on our working capital –

1. A decrease in inventories of approximately $275,000 due to the Company closing its yard in the Uintah basin in northeastern Utah that included an acidizing operation that utilized inventory of acid and chemicals.

2. An increase in accounts payable and accrued bonuses of approximately $630,000 directly related to the significant increases in well enhancement revenues during the fourth quarter of 2012 as compared to the same period in 2011; and

3. A decrease in marketable securities of approximately $150,000 due to the sale of securities at approximately $180,000, offset by the gain on the sale of these securities by approximately $30,000.

<u>Investing and Financing Activities</u>

Our capital expenditures for 2012 were approximately $4.2 million, as compared to approximately $5.6 million during 2011 (purchase amounts include leases of approximately $438,000 and $282,000, respectively). Also, in order to fund some of our capital expenditures we sold some of our marketable securities during the first six months of 2012 resulting in proceeds of approximately $180,000. During 2012, we disposed of obsolete or retired trucks and equipment resulting in proceeds of approximately $530,000, and also sold two properties from our Utah operations center, located in the Uintah basin, for combined cash proceeds of $625,000. These items, combined, explain the significant decrease of approximately $2.5 million in the cash used in investing activities during 2012, as compared to 2011.

On November 2, 2012, the Company refinanced its Term Loan debt and its revolving line of credit through PNC Business Credit. As part of the additional, private equity placement in November 2012, pursuant to the PNC Credit Facility, the Company received cash proceeds from the issuance of stock of approximately $2.0 million. The Company had net proceeds from the issuance of long-term debt (i.e. net of long-term debt repayments) of approximately $480,000. The Company also had net payments on its line of credit of approximately $100,000. These items, combined, explain the significant increase of approximately $1.5 million in the cash provided from financing activities during 2012, as compared to 2011.

As of December 31, 2011 we had outstanding purchase orders of approximately $500,000 for heating and other units to meet the demand of our customers. We purchased this equipment in the first and second quarters of 2012. As of December 31, 2012 we have executed commitments for approximately $900,000 for additional heating equipment. A majority of these assets were purchased and delivered as of the date of this filing.

Capital Commitments and Obligations

The Company’s capital commitments and obligations as of December 31, 2012 consisted of the PNC Term Loan, the PNC Revolving Line of Credit, a Great Western Bank Real Estate Loan entered into to fund the new operation center in North Dakota, as well as other bank debt and certain capital and operating leases. General terms and conditions for, and amounts due under, these commitments and obligations are summarized in the notes to the financial statements. Although all these obligations are not obligations of Enservco itself, as of the date of this report they are obligations and commitments of the Company on a consolidated basis and may affect the Company’s liquidity and financial obligations going forward.

Going forward, and subject to the availability of adequate financing, the Company hopes to expand its business operations by acquiring additional equipment, increasing the volume of services we currently offer, expanding the services we offer to our customers, and engaging in strategic transactions with companies that offer services that are similar or complementary to those that the Company offers.

Management has taken various preliminary steps to explore geographical and service offering expansion. To fully implement certain of these activities the Company likely will need to raise additional capital or borrow funds from its existing lender(s) or from other third parties. The Company believes that it can utilize cash flows, its existing line of credit, and remaining equipment and other loan balances to finance its current plans. However, should the Company desire to engage in certain strategic transactions or other significant expansions of its business operations it will likely have to obtain outside financing. There can be no assurance that financing will be available to the Company on reasonable terms, if at all.

<u>Off-balance Sheet Arrangements</u>

Other than the guarantees made by Enservco (as the parent Company) and by Mr. Herman on various loan agreements, the Company had no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our stockholders.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make a variety of estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and (ii) the reported amounts of revenues and expenses during the reporting periods covered by the financial statements.

Our management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increase, these judgments become even more subjective and complex. Although we believe that our estimates and assumptions are reasonable, actual results may differ significantly from these estimates. Changes in estimates and assumptions based upon actual results may have a material impact on our results of operation and/or financial condition. Our significant accounting policies are disclosed in Note 2 to the Financial Statements included in this Form 10-K.

While all of the significant accounting policies are important to the Company’s financial statements, the following accounting policies and the estimates derived there from have been identified as being critical.

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.

Inventory:

Inventory consists primarily of diesel fuel and chemicals that are 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.

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.

During fiscal year 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 twelve months ended December 31, 2012, the change in accounting estimate decreased depreciation for the period by approximately \$2.6 million (pre-tax difference), decreasing Loss from Operations and Net Loss by this amount, or by approximately \$0.11 earnings per basic and diluted common share, respectively.

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 discounted future cash flows in its assessment of whether or not long-lived assets have been impaired. No impairments were recorded during the years ended December 31, 2012 or 2011.

Intangible Assets:

Non-Competition Agreements. The non-competition agreements with the sellers of Heat Waves and Dillco have finite lives and are being amortized over the five-year contractual periods. Amortization expense is expected to be recognized through June 2013.

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 and intangible assets with indefinite lives 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 the intangible asset 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 years ending December 31, 2012 and 2011, the Company performed the annual impairment test as of the date ending at each of these fiscal years and determined in both fiscal years that no impairment existed.

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.

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 December 31, 2012 or 2011. The Company files tax returns in the United States, in the states of Colorado, Kansas, North Dakota, and Pennsylvania. The tax years 2009 through 2012 remain open to examination in the taxing jurisdictions to which the Company is subject.

Fair Value:

The Company has adopted the 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 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 fair value method of accounting for stock-based compensation, where Stock-based compensation costs are measured at fair value, determined using the stock price on the date of grant, and charged to expense over the requisite service period.

Loan Fees and Other Deferred Costs:

In the normal course of business, the Company often 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 defers the expensing of 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.

Revenue Recognition:

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

PART IV.

ITEM 15. EXHIBITS

Exhibit No.	Title
3.01	Second Amended and Restated Certificate of Incorporation of Aspen Exploration Corporation. (2)
3.02	Amended and Restated Bylaws. (3)
10.01	Employment Agreement between the Company and Michael D. Herman. (3)(6)
10.02	Employment Agreement between the Company and Rick Kasch. (3)(5)(6)(7)
10.03	Employment Agreement between the Company and Austin Peitz. Filed herewith.
10.04	2008 Equity Plan. (4)
10.05	2010 Stock Incentive Plan. (3)
10.06	Business Loan Agreement with Great Western Bank. (3)
10.07	Business Loan Agreement with Great Western Bank. (3)
10.08	Form of Indemnity Agreement. (3)
10.09	Business Loan Agreement with PNC Bank. (8)
14.1	Code of Business Conduct and Ethics Whistleblower Policy. (3)
21.1	Subsidiaries of Enservco Corporation. (3)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, (Principal Executive Officer). Filed herewith.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Principal Financial Officer). Filed herewith.
32.1	Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer). Filed herewith.
32.2	Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer). Filed herewith.

(1) Intentionally omitted.

(2) Incorporated by reference from the Company's Current Report on Form 8-K dated December 30, 2010, and filed on January 4, 2011.

(3) Incorporated by reference from the Company's Current Report on Form 8-K dated July 27, 2010, and filed on July 28, 2010.

(4) Incorporated by reference from the Company's Current Report on Form 8-K dated February 27, 2008, and filed on March 10, 2008.

(5) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, and filed on August 15, 2011.

(6) Incorporated by reference from the Company's Current Report on Form 8-K dated February 10, 2012, and filed on February 13, 2012.

(7) Incorporated by reference from the Company's Current Report on Form 8-K dated June 6, 2012, and filed on June 11, 2012.

(8) Incorporated by reference from the Company's Current Report on Form 8-K dated November 2, 2012, and filed on November 8, 2012.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

October 7, 2013

ENSERVCO CORPORATION,
a Delaware Corporation

/s/ Michael D. Herman
Principal Executive Officer

/s/ Robert Devers
Principal Financial Officer & Principal Accounting Officer