Enservco Corp
Form 10-Q
November 14, 2011

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

MARK ONE

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

For the quarterly period ended September 30, 2011

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)

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

830 Tenderfoot Hill Road, Suite 310
Colorado Springs, CO 80906
(Former name or former address if changed since last report)

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 x 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). Yes x 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 x

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

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

Class	Outstanding at November 1, 2011
Common stock, $.005 par value	21,778,866

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 525,801	$ 1,637,807
Accounts receivable, net	3,249,885	4,101,331
Marketable securities	154,212	365,786
Prepaid expenses and other current assets	651,593	315,521
Inventories	344,537	300,527
Income taxes receivable	-	634,941
Deferred tax asset	109,233	20,041
Total current assets	5,035,261	7,375,954
Property and Equipment, net	15,477,129	14,452,298
Non-Competition Agreements, net	240,000	420,000
Goodwill	301,087	301,087
Other Assets	58,503	71,537
TOTAL ASSETS	$ 21,111,980	$ 22,620,876
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 2,195,287	$ 2,066,353
Line of credit borrowings	1,314,358	1,050,000
Current portion of long-term debt	3,771,842	3,107,122
Total current liabilities	7,281,487	6,223,475
Long-Term Liabilities		
Deferred rent payable	5,511	-
Subordinated debt – related party	1,477,760	1,700,000
Long-term debt, less current portion	7,735,372	8,657,675
Deferred income taxes, net	731,908	1,434,282
Total long-term liabilities	9,950,551	11,791,957
Total liabilities	17,232,038	18,015,432
Stockholders' Equity		
Common and preferred stock. $.005 par value Authorized: 100,000,000 common shares and 10,000,000 preferred shares Issued: 21,882,466 common shares and -0- preferred shares Treasury Stock: 103,600 common shares Issued and outstanding: 21,778,866 common shares and -0- preferred shares at September 30, 2011 and December 31, 2010	108,894	108,894

Additional paid-in-capital	5,990,260	5,489,823
Retained deficit	(2,245,651)	(1,150,011)
Accumulated other comprehensive income – marketable securities	26,439	156,738
Total stockholders' equity	3,879,942	4,605,444
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 21,111,980	$ 22,620,876

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Operations

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)
Revenues	$ 4,532,274	$ 3,406,290	$ 18,265,614	$ 12,626,500
Cost of Revenue	3,952,923	2,960,385	13,619,711	10,102,887
Gross Profit	579,351	445,905	4,645,903	2,523,613
Operating Expenses				
General and administrative expenses	1,058,602	1,031,883	2,450,153	1,878,011
Depreciation and amortization	1,215,524	993,977	3,410,063	2,918,670
Total operating expenses	2,274,126	2,025,860	5,860,216	4,796,681
Loss from Operations	(1,694,775)	(1,579,955)	(1,214,313)	(2,273,068)
Other Expense				
Interest expense	(161,642)	(177,553)	(513,918)	(551,794)
Loss on disposals of equipment	-	(19,200)	(44,286)	(12,075)
Interest and other (expense) income	(726)	108,996	(38,436)	192,360
Total other expense	(162,368)	(87,757)	(596,640)	(371,509)
Loss Before Income Tax Benefit	(1,857,143)	(1,667,712)	(1,810,953)	(2,644,577)
Income Tax Benefit	726,719	661,913	715,313	962,374
Net Loss	$ (1,130,424)	$ (1,005,799)	$ (1,095,640)	$ (1,682,203)
Other Comprehensive (Loss) Income				
Unrealized (loss) gain on marketable securities, net of tax	(46,451)	37,168	(130,300)	(484,296)
Comprehensive Loss	$ (1,176,875)	$ (968,631)	$ (1,225,940)	$ (2,166,499)
Earnings per Common Share				
Loss Per Common Share – Basic Income	$ (0.05)	$ (0.05)	$ (0.05)	$ (0.10)
Loss Per Common Share –Diluted	$ (0.05)	$ (0.05)	$ (0.05)	$ (0.10)
Basic weighted average number of common shares outstanding (on an equivalent basis)	21,778,866	19,648,325	21,778,866	16,247,725
Add: Dilutive shares assuming exercise of options and warrants	-	-	-	-
Diluted weighted average number of common shares outstanding (on an equivalent basis)	21,778,866	19,648,325	21,778,866	16,247,725

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)
OPERATING ACTIVITIES				
Net loss	$ (1,130,424)	$ (1,005,799)	$ (1,095,640)	$ (1,682,203)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,215,524	993,977	3,410,063	2,918,670
Loss on disposal of equipment	-	19,200	44,286	12,075
Deferred income taxes	(756,417)	(1,049,455)	(791,566)	(1,349,915)
Unrealized gain on derivatives	-	-	-	(140,733)
Stock-based compensation	345,219	292,596	454,084	292,596
Warrants issued in consideration to vendor	-	81,771	46,353	81,771
Unrealized loss (gain) on available-for-sale securities	29,015	(37,168)	81,274	(35,039)
Bad debt expense	(112,292)	-	(111,947)	121,047
Changes in operating assets and liabilities				
Accounts receivable	(281,993)	(337,328)	963,393	40,246
Income taxes receivable	-	33,844	634,941	33,844
Inventories	(45,333)	(63,392)	(44,010)	(18,771)
Other current assets	(86,311)	(242,066)	(336,072)	(620,475)
Other non-current assets	2,646	(98,993)	13,034	(55,313)
Related party payable	-	(100,000)	-	(199,995)
Deferred rent payable	5,511	-	5,511	-
Accounts payable and accrued expenses	657,918	126,003	128,936	211,307
Net cash (used) provided in operating activities	(156,937)	(1,386,810)	3,402,640	(390,888)
INVESTING ACTIVITIES				
Purchases of property and equipment	(2,185,121)	(687,673)	(4,055,822)	(1,268,007)
Proceeds from sales of equipment	-	-	38,787	555,125
Net cash used in investing activities	(2,185,121)	(687,673)	(4,017,035)	(712,882)
FINANCING ACTIVITIES				
Net line of credit borrowings	1,314,358	(1,354,591)	264,358	(969,507)
Proceeds from issuance of long-term debt	562,946	226,902	562,946	11,026,902
Distributions to members	-	-	-	(569,712)
Contributions from members	-	74,336	-	87,756
Merger of Aspen Exploration and Dillco Fluid Services	-	3,324,814	-	3,324,814
Repayment of long-term debt	(704,724)	(217,497)	(1,324,915)	(11,039,111)
Net cash provided (used) in financing activities	1,172,580	2,053,964	(497,611)	1,861,142
	(1,169,478)	(20,519)	(1,112,006)	757,372

Net (Decrease) Increase in Cash and Cash Equivalents								
Cash and Cash Equivalents, Beginning of Period		1,695,279		926,377		1,637,807		148,486
Cash and Cash Equivalents, End of Period	$	525.801	$	905,858	$	525,801	$	905,858
Supplemental cash flow information consists of the following:								
Cash paid for interest	$	149,901	$	177,553	$	482,325	$	560,456
Cash paid for taxes	$		$	-	$		$	-
Supplemental Disclosure of Investing and Financing Activities:								
Agreements entered into for equipment	$	230,671	$	-	$	282,145	$	-

See notes to condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

Note 1 – Basis of Presentation

On July 27, 2010 Dillco Fluid Service, Inc. became a wholly owned subsidiary of Aspen Exploration Corporation ("Aspen") (the "Merger Transaction"). At the time of the Merger Transaction Aspen was not engaged in active business operations whereas Dillco conducted operations both directly and through subsidiary entities.

The accompanying condensed consolidated financial statements have been derived from the accounting records of Enservco Corporation (formerly Aspen Exploration Corporation), Enservco LLC, Heat Waves Hot Oil Services LLC ("Heat Waves"), Dillco Fluid Service, Inc. ("Dillco"), Trinidad Housing LLC, HES Services LLC, and Real GC LLC (collectively, the "Company") as of December 31, 2010 and September 30, 2011 and the results of operations for both the three and nine months ending September 30, 2011 and 2010. Any references to "Aspen" in this report are intended to provide reference for certain actions and events that took place prior to the Merger Transaction and are included to give context to the reader. References to "Enservco" and the "Company" are intended to apply to the Company as a whole and on a post Merger Transaction basis.

It should be noted that certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to Securities and Exchange Commission (SEC) Article 10 of Regulation S-X, although the Company believes that the disclosures are adequate to make the information presented not misleading. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010 as included in the Company's annual report in Form 10K for its fiscal year ended December 31, 2010.

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All significant inter-company balances and transactions have been eliminated in the accompanying consolidated financial statements.

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, 2011 the Company has recorded an allowance for doubtful accounts of $95,000. For the three and nine months ended September 30, 2011 the Company recorded bad debt expense net of recoveries of $(112,292) and $(111,947), respectively. For the three and nine months ended September 30, 2010 the Company recorded bad debt expense of $-0- and $121,047, respectively.

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.

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.

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, per 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 has entered into several 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 and associated liabilities are separately identified in the balance sheet. 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.

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 both the three and nine month periods ended September 30, 2011 and 2010.

Revenue Recognition

The Company recognizes revenue when services are provided and collection is reasonably assured. It should be noted that due to the seasonality of the Company’s operations, a significant portion of revenues are recognized during the colder, winter months of the year. Therefore, the Company believes that, the revenues recognized for the three and nine month periods ended September 30, 2011 and 2010 are not indicative of the annual or quarterly revenues through the remainder of the fiscal year.

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, 2011 and December 31, 2010, the Company had outstanding Stock-based Option Awards and Warrants to acquire an aggregate of 3,525,000 and 2,550,000 shares of Company common stock, respectively, which have a potentially dilutive impact on earnings per share. Dilution is not permitted if there are net losses during the period. As such, the Company does not show dilutive earnings per share for the three and nine months ended September 30, 2011, nor for the year ended December 31, 2010.

Intangible Assets

Non-Competition Agreements

The non-competition agreements with the sellers of Heat Waves, Hot Oil Express, and Dillco have finite lives and are being amortized over a five-year period (Note 3). 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. No impairment charge was recorded during both the three and nine month periods ended September 30, 2011 and 2010.

Marketable Securities

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale. Held-to-maturity securities are recorded as either short term or long term on the Balance Sheet, based on contractual maturity date and are stated at amortized cost. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Debt and marketable equity securities not classified as held to maturity or as trading, are classified as available for sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in stockholders' equity.

The fair value of substantially all marketable securities is determined in reference to quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market. See Note 7.

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. 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.

Deferred Rent Liability

The Company recognizes rent expense on a straight-line basis over the life of the rental agreement. Deferred rent liability is recognized as the difference between rent expense recorded and actual cash payments made and is recorded as a Long-Term Liability as a separate line item on the classified Balance Sheet. As of September 30, 2011 deferred rent liability totaled $5,511. The Company did not have a deferred rent liability as of December 31, 2010.

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Income Taxes

Enservco LLC (which served as the holding company for the Company's various operating entities until the time of the Merger Transaction in July 2010) and its subsidiaries, with the exception of Dillco (which is a C Corporation subject to federal and state income taxes), are limited liability companies and prior to January 1, 2010 were not subject to federal or state income taxes. On January 1, 2010 Enservco LLC elected to be taxed as a corporation. Therefore, prior to January 1, 2010 no provision or liability for income taxes has been included in the accompanying financial statements, except for income taxes relating to the financial statements of Dillco and Aspen (the current parent (or holding) company for the Company's operations and assets).

The Company recognizes deferred tax liabilities and assets (Note 8) 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.

When accounting for uncertainty in income taxes for those entities electing to be treated as limited liability companies for income tax purposes, if taxing authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the member rather than the Company. Accordingly, there would be no effect on the Company's 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, 2010. The Company files income tax returns in the United States and in the states in which it conducts its business operations. The tax years 2007 through 2010 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 accounts for stock-based compensation in accordance with current accounting standards which requires companies to recognize compensation expense for the share-based payments based on the estimated fair value of the awards. The effect of this guidance is described in Note 10.

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.

Accounting Pronouncements

Recently Adopted Accounting Guidance

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-08, "Intangibles – Goodwill and Other." This pronouncement amends the goodwill impairment guidance to simplify testing goodwill for impairment. The amended guidance provides entities an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (early adoption is permitted). The Company is evaluating whether to adopt the amended guidance for the 2011 goodwill impairment test performed in the fourth quarter, but does not expect the amended guidance to have a material impact on the Company's financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS")." This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and changes the disclosure requirements to include quantitative information about unobservable inputs used for level 3 fair value measurements. This pronouncement is effective for reporting periods beginning on or after December 15, 2011 (early adoption is prohibited). The Company is evaluating the potential impact of adopting this guidance on its consolidated financial position, results of operations, cash flows, and disclosures.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income." ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 (early adoption is permitted). The Company is evaluating the potential impact of adopting this guidance on its consolidated financial position, results of operations, cash flows, and disclosures.

Note 3 - Non-Competition Agreements

Non-competition agreements consist of the following as of September 30, 2011:

Non-competition agreements - net, at January 1, 2010	$660,000
Amortization for the year ended December 31, 2010	(240,000)
Non-competition agreements - net, at December 31, 2010	420,000
Amortization for the nine months ended September 30, 2011	(180,000)
Non-competition agreements - net, at September 30, 2011	$240,000

Amortization expense for the three and nine months ended September 30, 2011 and 2010 totaled $60,000 and $180,000, respectively.

Amortization expense on these non-competition agreements for each of the next three years will be as follows:

Twelve Months Ending September 30,

2012	$	195,000
2013		45,000
2014		-
Total	$	240,000

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Note 4 - Property and Equipment

Property and equipment consists of the following:

	For the period ended, September 30, 2011	December 31, 2010
Trucks and vehicles	$ 21,061,233	$ 17,957,278
Other equipment	2,991,394	2,807,165
Buildings and improvements	2,914,298	1,717,618
Trucks in process	876,264	1,287,536
Capitalized truck leases	455,093	455,093
Land	673,420	521,420
Disposal wells	620,104	590,802
Total property and equipment	29,591,806	25,336,912
Accumulated depreciation	(14,114,677)	(10,884,614)
Property and equipment - net	$ 15,477,129	$ 14,452,298

Depreciation expense for the three months ended September 30, 2011 and 2010 totaled $1,155,524 and $938,954, respectively. Depreciation expense for the nine months ended September 30, 2011 and 2010 totaled $3,230,063 and $2,738,670, respectively.

Note 5 – Long-Term Debt

Long-term debt consists of the following:

	For the period ended, September 30, 2011	December 31, 2010
Term Loan entered into as part of the debt refinancing in June 2010 with an original principal balance of $9.1 million, payable in monthly interest only payments from July 2010 to June 2011 with fixed monthly principal and interest installments of $225,139 beginning July 2011 until March 2015. Interest at Prime plus 1% with a 5.5% floor, collateralized by equipment, inventory, and accounts of the Company, guaranteed by the subsidiaries and one of the stockholders of the Company, and subject to financial covenants.	$ 8,608,320	$ 9,049,383
Notes payable to stockholder, subordinated to all bank debt, fixed interest at 3% compounding annually, interest paid in arrears December 31st of each year, due in December 2018.	1,477,760	1,700,000
Notes payable to equipment finance companies, interest at 2.97% to 4.74%, due in monthly principal and interest installments through January 2012, secured by equipment.	64,927	227,273
	359,000	386,000

Note payable to the seller of Heat Waves, interest at 8%, due in installments in January and May 2009, secured by land. The note was garnished by the Internal Revenue Service ("IRS") in 2009 and is due on demand.		
Mortgage payable to a bank, interest at 8%, due in monthly payments through May 2012 with a balloon payment of $229,198 on June 15, 2012, secured by land, guaranteed by one of the Company's stockholders.	251,256	276,326

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	September 30, 2011	December 31, 2010
Note payable to the seller of Hot Oil Express, non-interest bearing, due in annual installments of $100,000 through March 2011, unsecured. Imputed interest is not significant. (The Company purchased fixed assets from Hot Oil Express during 2008.)	-	100,000
Mortgage payable to a bank, interest at 8%, payable in monthly payments through August 2012 with a balloon payment of $141,707 on September 1, 2012, secured by land.	149,789	155,980
Notes payable to a vehicle finance company, interest at fixed rates from 6.19% to 10.25%, due in monthly installments through August 2015, secured by vehicles, guaranteed by one of the stockholders.	156,992	154,763
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 September 2013.	273,812	411,072
Equipment Loan entered into with an original principal balance of $1,000,000, payable in two consecutive interest only payments, beginning December 23, 2010, forty-seven monthly consecutive principal and interest payments of $23,291, beginning February 23, 2011, and one final principal and interest payment of $23,315 due on January 23, 2015. Interest at Prime plus 1% with a 5.5% floor, collateralized by equipment purchased with the equipment loan, guaranteed by the subsidiaries and one of the stockholders of the Company, subject to financial covenants.	848,328	1,000,000
Note payable entered into with a lending institution in order to purchase field pickup trucks, interest at a fixed rate of 8.4%. Truck lease term of 60 months, due in monthly installments through September 2016.	230,671	-
Equipment Loan entered into with an original principal balance of $152,303, payable in forty-seven monthly consecutive principal and interest payments of $3,548, beginning September 1, 2011, and one final principal and interest payment of $3,548 due on August 1, 2015. Interest at Prime plus 1% with a 5.5% floor, collateralized by equipment purchased with the equipment loan, guaranteed by the subsidiaries and one of the stockholders of the Company, subject to financial covenants.	149,477	-
Equipment Loan entered into with an original principal balance of $410,642, payable in forty-seven monthly consecutive principal and interest payments of $9,565, beginning on October 13, 2011, and one final principal and interest payment of $9,565 due on September 13, 2015. Interest at Prime plus 1% with a 5.5% floor, collateralized by equipment purchased with the equipment loan, guaranteed by the subsidiaries and one of the stockholders of the Company, subject	410,642	-

to financial covenants.			
Other notes payable.		4,000	4,000
Total		12,984,974	13,464,797
Less current portion		(3,771,842)	(3,107,122)
Long-term debt, net of current portion	$	9,213,132	$10,357,675

Aggregate maturities of debt are as follows:

Twelve Months Ending September 30,

2012	$	3,771,842
2013		2,965,005
2014		3,026,825
2015		1,683,535
2016		60,007
Thereafter		1,477,760
Total	$	12,984,974

Note 6 – Marketable Securities

Available-for-sale securities

Available-for-sale securities, classified as current assets within prepaid expenses and other current assets, is as follows:

	Year ended December 31, 2010				
	Cost	Unrealized Gains in Accumulated Other Comprehensive Income	Unrealized Losses in Accumulated Other Comprehensive Income	Sales of Securities	Fair Value
Common Stock - Mutual Funds	$306,364	$ 454,090	$ (58,163)	$(336,505)	$365,786

	Nine months ended September 30, 2011				
	Cost	Unrealized Gains in Accumulated Other Comprehensive Income	Unrealized Losses in Accumulated Other Comprehensive Income	Sales of Securities	Fair Value
Common Stock - Mutual Funds	$365,786-	$ 41,628	$ (253,202)	$-	$154,212

Net unrealized holding losses on available-for-sale securities in the amount of ($211,574) for the nine months ended September 30, 2011, have been included in accumulated other comprehensive income.

Note 7 - Fair Value Measurements

The following tables present the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis by level within the fair value hierarchy:

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Marketable Securities	$365,786	$-	$-	$365,786

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Marketable Securities	$154,212	$-	$-	$154,212

Note 8 – Income Taxes

During and before the 2009 calendar (and fiscal) year, Enservco LLC and some of its subsidiaries had elected to be treated as limited liability companies for income tax purposes. Accordingly, all taxable income and losses for these entities are reported in the respective income tax returns of the member and no provision for income taxes has been recorded in the accompanying financial statements. Subsidiaries taxed as corporations, however, do record a provision for income taxes.

Pursuant to a reorganization of the Company (prior to the Merger Transaction), effective as of December 31, 2009, the ownership of Heat Waves, Trinidad Housing, Real GC and certain assets of HNR were contributed to Dillco. Since Dillco is a C Corporation, this reorganization effectively resulted in a conversion from a limited liability corporation to a C Corporation for the entities and the assets of HNR. Accordingly, the corresponding net deferred tax liabilities of Dillco were recorded as liabilities of the Company with a corresponding increase in deferred income tax expense.

Also, pursuant to the Merger Transaction with Aspen (a C Corporation) at July 27, 2010, the Company has recorded all net deferred tax assets contributed by Aspen as part of the Merger Transaction as an increase in the deferred income tax benefit.

Total income tax benefit from continuing operations differs from the amount computed by applying the statutory federal income tax rate of 34% to income before taxes. The reasons for this effective tax rate difference for the nine months ended September 30, 2011 are as follows:

	Nine Months Ended September 30,2011
Computed expected tax benefit	$ 615,724
Increase in income tax benefit resulting from:	
State and local income taxes, net of federal impact	90,548
Other	9,041
Income tax benefit	$ 715,313

Note 9 – Commitments and Contingencies

The Company leases six facilities under lease commitments that expire at various times through November 2016. Future minimum lease commitments are as follows:

Twelve Months Ending September 30,		
2012	$	227,838
2013		176,629
2014		153,377
Thereafter		288,692
Total	$	846,536

The Company has entered into capital leases for five water transport units (each unit includes one truck and one trailer), which have been included in Property and Equipment (Note 4) and are summarized in the table below as of September 30, 2011:

Capitalized Trucks	$218,807
Capitalized Trailers	236,286
Less: Accumulated Depreciation	(67,130)
Net Assets Under Capital Leases	$387,963

The following is a summary of future minimum lease payments under capital leases as of September 30, 2011:

Twelve Months Ending September 30,		Minimum Lease Payment
2012	$	198,780
2013		85,205
2014		874
Total minimum lease payments		284,859
Less: Interest		(11,049)
Net minimum lease payments		273,810
Less: Current portion		(189,816)
Long-term portion of minimum lease payments	$	83,994

Note 10 – Stockholder’s Equity

2010 Option Plan

On July 27, 2010 the Company’s Board of Directors adopted the Company’s 2010 Stock Incentive Plan (the “2010 Plan”). The aggregate number of shares of our common stock that may be issued through December 31, 2011 under all equity-based awards made under the 2010 Plan is 3,500,000 shares. The number of shares subject to the 2010 Plan may be reset each year, commencing January 1, 2012, based on the number of shares of stock then outstanding.

Through September 30, 2011 the Company had granted options to acquire a total of 2,850,000 shares of common stock pursuant to the 2010 Plan. A portion of these options are subject to vesting schedules.

The exercise price of the options granted under the 2010 Plan was determined based on the terms and conditions within the 2010 Plan. Pursuant to the 2010 Plan, options to acquire an aggregate of 975,000 shares of common stock were granted on the date of the Merger Transaction. The exercise price of these options was based on the closing sale price of the Company's common stock on the second business day following the Company reporting the closing of the Merger Transaction. Of these shares, 225,000 shares vested immediately upon grant and the remaining 750,000 shares vested one-third on the date of grant and the remaining two-thirds over a two year period. Subsequently, options to acquire 1,875,000 shares of common stock were granted under the 2010 Plan and the exercise price of these options was based either on the closing sale price of the Company's common stock on the date of grant or the ten day average closing price of the Company's common stock prior to the grant date. These 1,875,000 shares vest over two to three year periods with 633,333 shares having vested on the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The options issued under the 2010 Plan were valued using the following weighted average assumptions for the nine months ended September 30, 2011 and 2010, respectively: no dividend yield for both periods, expected volatility of 125.0% and 105.0%, risk free interest rate of 0.74% and 0.80%, and expected term of 3.2 years for both periods. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods through the date of issuance, equal to the expected option term. Expected pre-vesting forfeitures were assumed to be zero. The expected option term was calculated using the "simplified" method.

For the nine months ended September 30, 2011 the Company recognized expense associated with these options (through operating expense as general and administrative expense) of $454,084. As of September 30, 2011 the Company has recognized accumulated, total expenses of $796,361 and unrecognized expense of $521,072 associated with these options which will be recognized over a remaining average period of 2.5 years.

2008 Option Plan

Through July 27, 2010 Aspen had one equity compensation plan, the "2008 Equity Plan." An aggregate of 1,000,000 common shares were reserved for issuance under the 2008 Equity Plan and in February 2008 the Board of Directors granted directors and employees options to acquire 775,000 shares which vested based on meeting certain performance goals, exercisable at $2.14 per share through February 27, 2013. Of these, all but 140,431 had expired or were deemed forfeited as of December 31, 2010 for failure to meet established performance goals or as a result of a termination of employment. As of December 31, 2010, the Company did not have any unrecognized expense associated with these options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The options issued under the 2008 Equity Plan were valued using the following weighted average assumptions: no dividend yield, expected volatility of 58%, risk free interest rate of 2.25% and expected term of 3.3 years. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods through the date of issuance, equal to the expected option term. Expected pre-vesting forfeitures were assumed to be zero. The expected option term was calculated using the "simplified" method.

Pursuant to the 2008 Equity Plan, on February 15, 2010, Aspen's Board of Directors granted options to certain Aspen employees and consultants. The options were granted to persons who remained with Aspen and had provided (and were then expected to continue to provide) valuable services to Aspen, and to help align interests of the recipients with those of Aspen and its stockholders. In total, Aspen granted options to acquire 350,000 shares of its common stock which were exercisable at $0.4125 per share (equal to 125% of the closing price on the business day after the day Aspen filed its Form 10-Q for the quarter ended December 31, 2009).

Each of the options expires on February 15, 2015. All of the options granted vested as a result of the Merger Transaction on July 27, 2010. 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 the Merger Transaction occurred on July 27, 2010, the stock compensation expense associated with these 350,000 options was not recognized by the Company on its consolidated financial statements; the expense was recognized by Aspen Exploration prior to the merger.

The following information summarizes information with respect to options granted under all equity plans:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at June 30, 2010*	490,431	$ 0.96	4.01
Granted	1,975,000	0.49	
Exercised	-	-	
Forfeited or Expired	-	-	
Outstanding at December 31, 2010	2,465,431	$ 0.58	3.33
Granted	875,000	1.02	
Exercised	-	-	
Forfeited or Expired	(5,000)	0.84	
Outstanding at September 30, 2011	3,335,431	$ 0.70	2.68
Exercisable at June 30, 2010	140,431	$ 2.24	2.57
Exercisable at December 31, 2010	1,298,764	$ 0.49	3.33
Exercisable at September 30, 2011	2,182,097	$ 0.70	2.50

A summary of the status of nonvested shares underlying the options are presented below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at June 30, 2010*	350,000	$ 0.41
Granted	1,975,000	0.34
Vested	(1,158,333)	0.47
Forfeited	-	-
Nonvested at December 31, 2010	1,166,667	$ 0.34
Granted	875,000	0.75
Vested	(883,333)	0.50
Forfeited	(5,000)	0.62
Nonvested at September 30, 2011	1,153,334	$ 0.48

The weighted average grant date fair value of options granted for the nine months ended September 30, 2011 was $653,391.

*Note: Options prior to the merger acquisition on July 27, 2010 were reported on a fiscal year period from July 1 through June 30.

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, 2011 and 2010, and our financial condition, liquidity and capital resources as of September 30, 2011, and December 31, 2010. 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, increases in oil and gas production, the number of anticipated wells to be drilled after the date hereof, 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,” “should,” “c
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:

- future capital requirements and uncertainty of obtaining additional funding on terms acceptable to us;
- a decline in oil or natural gas production or oil or natural gas prices, the impact of price volatility in the oil and natural gas industries and the impact of general economic conditions on the demand for the services we offer to the oil and natural gas industries;
- activities of our competitors, many of whom have greater financial resources than we have;
- geographical diversity of our operations and the difficulties inherent in managing such geographically diverse operations;
- ongoing U.S. and global economic uncertainty;
- our ability to generate sufficient cash flows to repay our debt obligations;
- availability of borrowings under our credit facility;
- unanticipated increases in the cost of our operations;
- historical incurrence of losses;
- reliance on limited number of customers and creditworthiness of our customers;
- increases in interest rates and our failure to hedge against possible interest rate increases;
- our ability to retain key members of our senior management and key technical employees, and conflicts of interests with respect to our directors;

- our level of indebtedness;

- impact of environmental, health and safety, and other governmental regulations, and of current or pending legislation;
- effect of seasonal factors;
- further sales or issuances of 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 reports filed with the SEC under the Securities Exchange Act of 1934, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. 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.

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. Historically, and through its fiscal year ended June 30, 2009, Aspen was engaged in a broad range of activities associated with the development of oil and natural gas reserves primarily in the Sacramento Valley in California, and in the East Poplar Field in Montana.

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.

Enservco primarily conducts its business operations through two subsidiaries: Dillco and Heat Waves Hot Oil Service LLC ("Heat Waves"). However, certain assets utilized by Enservco in its business operations are owned by other subsidiary entities. Dillco and Heat Waves provide oil field services to the domestic onshore oil and natural gas industry. These services include pressure testing, hot oiling, acidizing, frac heating, freshwater and saltwater hauling, fluid disposal, frac tank rental, well site construction and other general oil field services. The Company currently operates in:

- Colorado and southern Wyoming (D-J Basin and Niobrara formations),
- western North Dakota and eastern Montana (Bakken formation),
- northwestern West Virginia and southwest Pennsylvania (Marcellus Shale) region,
- southwestern Kansas and northwestern Oklahoma,
- northeastern Utah (Uintah formation), and
- northern New Mexico.

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Going forward 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 will 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). As a result, Dillco's financial statements became the financial statements of the surviving company. Aspen's financial condition is additive to Dillco's financial statements for the period following the Merger Transaction.

As part of the Merger Transaction, Aspen issued 14,519,244 shares of its common stock to the shareholders of Dillco, in exchange for all of the issued and outstanding shares of Dillco (7,259,622 shares).

Effective with the Agreement, the Company’s stockholders’ equity was recapitalized as that of Aspen, or $72,596 from Dillco and $36,298 from Aspen for a total of $108,894, while 100% of the assets and liabilities of Aspen were recorded as being acquired in the reverse acquisition.

Dillco’s fiscal year end is December 31, 2010 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.

The financial statements included in this report are for Enservco’s three and nine month periods ended September 30, 2011 and 2010 and include Aspen’s financial statements only as a result of, and subsequent to, the Merger Transaction. As such, the following management’s discussion and analysis is with respect to Enservco’s three and nine months ended September 30, 2011, and the corresponding period(s) in the previous fiscal year. 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 Three and Nine Months ended September 30, 2011 and 2010

The following tables show the increases (decreases) for the periods noted. Please see information following the tables for management's discussion of significant increases (decreases).

	For the Three Months Ended September 30,			
	2011 (Unaudited)	% of Revenue	2010 (Unaudited)	% of Revenue
Revenues	$4,532,274	100 %	$3,406,290	100 %
Cost of Revenue	3,952,923	87 %	2,960,385	87 %
Gross Profit	579,351	13 %	445,905	13 %
Operating Expenses				
General and administrative expenses	1,058,602	23 %	1,031,883	30 %
Depreciation and amortization	1,215,524	27 %	993,977	29 %
Total operating expenses	2,274,126	50 %	2,025,860	59 %
Loss from Operations	(1,694,775)	(37 %)	(1,579,955)	(46 %)
Other Expense	(162,368)	(4 %)	(87,757)	(3 %)
Loss Before Income Tax Benefit	(1,857,143)	(41 %)	(1,667,712)	(49 %)
Income Tax Benefit	726,719	16 %	661,913	19 %
Net Loss	$(1,130,424)	(25 %)	$(1,005,799)	(30 %)
EBITDA*:				
Net Loss	$(1,130,424)		$(1,005,799)	
Add (Deduct):				
Interest expense	161,642		177,553	
Income tax benefit	(726,719)		(661,913)	
Depreciation and amortization	1,215,524			