Enservco Corp
Form 10-Q
August 13, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

[**X**] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number 0-9494

ENSERVCO CORPORATION

(Exact Name of registrant as Specified in its Charter)

Delaware	**84-0811316**
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	Identification No.)
501 South Cherry St., Ste. 320	
Denver, CO	**80246**
(Address of principal executive offices)	(Zip Code)

(303) 333-3678

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Enservco was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **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 August 12, 2013
Common stock, $.005 par value	32,244,683

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Item 1. FINANCIAL STATEMENTS

Enservco Corporation

Condensed Consolidated Balance Sheets

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$5,734,705	$533,627
Accounts receivable, net	5,177,737	7,791,342
Prepaid expenses and other current assets	1,198,662	802,020
Inventories	284,689	273,103
Deferred tax asset	145,319	153,466
Total current assets	12,541,112	9,553,558
Property and Equipment, net	14,636,345	15,020,890
Fixed Assets Held for Sale, net	-	304,429
Non-Competition Agreements, net	-	30,000
Goodwill	301,087	301,087
Long-Term Portion of Interest Rate Swap	21,665	16,171
Other Assets	646,123	630,891
TOTAL ASSETS	$28,146,332	$25,857,026
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$1,877,107	$3,606,645
Income taxes payable	646,144	-
Line of credit borrowings	-	2,151,052
Current portion of long-term debt	2,220,256	2,236,343
Current portion of interest rate swap	19,563	24,048
Total current liabilities	4,763,070	8,018,088
Long-Term Liabilities		
Long-term debt, less current portion	9,542,234	10,570,928
Deferred income taxes, net	2,564,869	451,662

Total long-term liabilities	12,107,103	11,022,590
Total liabilities	16,870,173	19,040,678
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock. $.005 par value, 10,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock. $.005 par value, 100,000,000 shares authorized, 32,296,184 and 31,928,894 shares issued, respectively; 103,600 shares of treasury stock; and 32,192,584 and 31,825,294 shares outstanding, respectively	160,963	159,127
Additional paid-in-capital	10,191,303	9,864,363
Accumulated earnings (deficit)	922,601	(3,202,337)
Accumulated other comprehensive income (loss)	1,292	(4,805)
Total stockholders' equity	11,276,159	6,816,348
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$28,146,332	$25,857,026

See notes to condensed consolidated financial statements.

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Enservco Corporation

Condensed Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	$7,947,635	$5,511,219	$26,516,027	$15,039,173
Cost of Revenue	5,639,686	4,385,096	16,031,978	10,964,524
Gross Profit	2,307,949	1,126,123	10,484,049	4,074,649
Operating Expenses				
General and administrative expenses	1,169,620	944,538	2,086,769	1,847,898
Depreciation and amortization	586,365	564,581	1,150,200	1,888,377
Total operating expenses	1,755,985	1,509,119	3,236,969	3,736,275
Income (Loss) from Operations	551,964	(382,996)	7,247,080	338,374
Other Income (Expense)				
Interest expense	(251,655)	(217,841)	(565,707)	(426,833)
Gain on disposals of equipment	-	1,536	306,457	1,536
Other income	10,215	9,613	24,827	79,838
Total Other Income (Expense)	(241,440)	(206,692)	(234,423)	(345,459)
Income (Loss) From Continued Operations, Before Tax Expense	310,524	(589,688)	7,012,657	(7,085)
Income Tax (Expense) Benefit	(118,443)	242,576	(2,814,004)	38,730
Income (Loss) From Continued Operations, Net of Tax	192,081	(347,112)	4,198,653	31,645
Discontinued Operations				
Loss From Discontinued Operations, Before Tax	(1,927)	(151,786)	(120,845)	(317,147)
Income Tax Benefit	753	59,197	47,130	123,686
Loss From Discontinued Operations, Net of Tax	(1,174)	(92,589)	(73,715)	(193,461)
Net Income (Loss)	$190,907	$(439,701)	$4,124,938	$(161,816)
Other Comprehensive Income (Loss)				
Unrealized gain (loss) on interest rate swaps, net of tax	(4,135)	-	6,097	-
Settlements – interest rate swap	6,838	-	13,592	-
Reclassified into earnings – interest rate swap	(6,838)	-	(13,592)	-

Unrealized loss on available-for-sale securities, net of tax	-	(1,858)	-	(23,073)
Total Other Comprehensive Income (Loss)	(4,135)	(1,858)	6,097	(23,073)
Comprehensive Income (Loss)	$186,772	$(441,559)	$4,131,035	$(184,889)
Earnings per Common Share - Basic				
Income (loss) from continuing operations	$0.01	$(0.02)	$0.13	$-
Income (loss) from discontinued operations	-	-	-	(0.01)
Net Income	$0.01	$(0.02)	$0.13	$(0.01)
Earnings per Common Share – Diluted				
Income (loss) from continuing operations	$0.01	$(0.02)	$0.12	$-
Income (loss) from discontinued operations	-	-	-	(0.01)
Net Income	$0.01	$(0.02)	$0.12	$(0.01)
Basic weighted average number of common shares outstanding	32,099,332	21,778,866	31,963,070	21,778,866
Add: Dilutive shares assuming exercise of options and warrants	3,589,220	-	3,444,113	-
Diluted weighted average number of common shares outstanding	35,688,552	21,778,866	35,407,183	21,778,866

See notes to condensed consolidated financial statements.

Enservco Corporation

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
OPERATING ACTIVITIES				
Net income (loss)	$190,907	$(439,701)	$4,124,938	$(161,816)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization (includes $16,669 and $94,064 from discontinued operations in 2012, respectively)	586,365	581,250	1,150,200	1,982,442
Gain on sale and on disposal of equipment	-	(1,536)	(306,457)	(1,536)
Realized gain on sale of marketable securities	-	(12,891)	-	(24,653)
Deferred income taxes	978,087	(305,136)	2,117,472	(229,655)
Stock-based compensation	260,054	144,651	328,776	189,287
Amortization of debt issuance costs	76,945	-	153,888	-
Bad debt expense (recoveries)	44,163	-	170,397	(1,739)
Changes in operating assets and liabilities				
Accounts receivable	8,198,556	2,314,367	2,443,208	676,168
Inventories	(19,805)	14,029	(11,586)	(14,824)
Prepaid expense and other current assets	89,437	(67,205)	(396,642)	(276,486)
Other non-current assets	-	90,904	(169,120)	15,039
Accounts payable and accrued liabilities	(1,663,196)	(951,632)	(1,729,538)	(201,837)
Income taxes payable	(863,153)	-	646,144	-
Net cash provided by operating activities	7,878,360	1,367,100	8,521,680	1,950,390
INVESTING ACTIVITIES				
Purchases of property and equipment	(1,245,758)	(516,854)	(1,837,511)	(1,938,766)
Proceeds from sale and disposal of equipment	-	3,500	1,802,333	3,500
Sales of available-for-sale securities	-	69,746	-	180,208
Net cash used by investing activities	(1,245,758)	(443,608)	(35,178)	(1,755,058)
FINANCING ACTIVITIES				
Net line of credit (payments) borrowings	(1,234,447)	(330,350)	(2,151,052)	394,650
Proceeds from issuance of long-term debt	-	-	-	1,359,907
Repayment of long-term debt	(466,721)	(877,422)	(1,134,372)	(1,731,781)
Payments upon interest rate swap settlements	-	-	-	-
Net cash (used) provided by financing activities	(1,701,168)	(1,207,772)	(3,285,424)	22,776
Net Increase (Decrease) in Cash and Cash Equivalents	4,931,434	(284,280)	5,201,078	218,108

Cash and Cash Equivalents, Beginning of Period	803,271	919,393	533,627	417,005
Cash and Cash Equivalents, End of Period	$5,734,705	$635,113	$5,734,705	$635,113
Supplemental cash flow information:				
Cash paid for interest	$147,713	$207,209	$375,465	$405,898
Cash paid for taxes	$2,757	$-	$3,257	$-
Supplemental Disclosure of Non-cash Investing and Financing Activities:				
Equipment purchased through installment loans	$89,591	$-	$89,591	$-
Cashless exercise of stock options and warrants	$1,836	$-	$1,836	$-
Increase in fair value of available-for-sale securities	$-	$317	$-	$29,415

See notes to condensed consolidated financial statements.

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Enservco Corporation

Notes to the Condensed Consolidated Financial Statements

Note 1 – Basis of Presentation

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

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

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

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

The accompanying unaudited Condensed Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the disclosures required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, all of the normal and recurring adjustments necessary to fairly present the interim financial information set forth herein have been included. The results of operations for interim periods are not necessarily indicative of the operating results of a full year or of future years.

The accompanying unaudited Condensed Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and follow the same accounting policies and methods of their application as the most recent annual financial statements. These interim financial statements should be read in conjunction with the financial statements and related footnotes included in the Annual Report on Form 10-K of Enservco Corporation for the year ended December 31, 2012. All significant inter-company balances and transactions have been eliminated in the accompanying consolidated financial statements.

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

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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 June 30, 2013 and December 31, 2012, the Company had an allowance for doubtful accounts of $230,000 and $185,000, respectively. For the three and six months ended June 30, 2013, the Company recorded bad debt expense (net of recoveries) of $44,163 and $170,397, respectively. For the three and six months ended June 31, 2012, the Company recorded bad debt recoveries of $-0- and $1,739, respectively.

Inventory

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

Long-Lived Assets

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

Property and Equipment

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

In April 2012, the Company reassessed the estimated useful lives of its trucks and equipment (including its well servicing units and equipment, fluid services equipment, construction equipment, and other vehicles) as well as the estimated useful lives of its disposal wells. Through this assessment, the Company increased the useful lives of its trucks and equipment from 5-7 years to 10 years, and increased the useful lives of its disposal wells from 7-10 years to 15 years. The Company has determined that this adjustment to its useful lives is a change in accounting estimate and has accounted for the change prospectively; i.e. the accounting change impacts interim reporting periods within fiscal year 2012 and future periods. For the three and six months ended June 30, 2012, the change in accounting estimate decreased depreciation expense for the period by approximately $860,000 (pre-tax difference), increasing Income (Loss) from Operations and Net Income (Loss) by this amount, or by approximately $0.02 per basic and diluted common share.

<u>Leases</u>

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

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

The Company has also entered into 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 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.

<u>Revenue Recognition</u>

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

Earnings Per Share

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

As of June 30, 2013 and 2012, the Company had outstanding stock options and warrants to acquire an aggregate of 8,867,226 and 2,655,000 shares of Company common stock, respectively, which have a potentially dilutive impact on earnings per share. Due to the presentation of discontinued operations (see Note 3) throughout this report, in accordance with accounting guidance, the Company presented earnings (loss) per common share from continuing and discontinued operations within its financial statements for the three and six months ended June 30, 2013 and 2012. For the three and six months ended June 30, 2013, the incremental shares of the options and warrants to be included in the calculation of diluted earnings per share had a dilutive impact on the Company's earnings per share of 3,589,220 and 3,444,113 shares, respectively. Dilution is not permitted if there are net losses during the period. As such, the Company does not show dilutive earnings per share for all other earnings (loss) per common share data presented within its financial statements for the three and six months ended June 30, 2012.

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 a five-year period. Amortization expense was recognized through June 2013 and all non-competition agreements are fully amortized as of June 30, 2013. Amortization expense for the six months ended June 30, 2013 and 2012 totaled $30,000 and $120,000, respectively.

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

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

Loan Fees and Other Deferred Costs

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

Income Taxes

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

The Company accounts for any uncertainty in income taxes by recognizing the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company measures the tax benefits recognized in the financial statements from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, the Company is required to make many subjective assumptions and judgments regarding income tax exposures. Interpretations of and guidance surrounding income tax law and regulations change over time and may result in changes to the Company’s subjective assumptions and judgments which can materially affect amounts recognized in the consolidated balance sheets and consolidated statements of income. The result of the reassessment of the Company’s tax positions did not have an impact on the consolidated financial statements.

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

Fair Value

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

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

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

Level 1: Quoted prices are available in active markets for identical assets or liabilities;

Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or

Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

Stock-based Compensation

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

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

Management Estimates

The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Discontinued Operations

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues	$-	$116,163	$-	$126,202
Cost of Revenue	1,927	250,859	119,882	348,114
Gross Profit	(1,927)	(134,696)	(119,882)	(221,912)
Operating Expenses				
Depreciation and amortization	-	16,669	-	94,064
Loss from Operations	(1,927)	(151,365)	(119,882)	(315,976)
Other Expense				
Interest expense	-	421	963	1,171
Loss from discontinued operations	(1,927)	(151,786)	(120,845)	(317,147)
Income tax benefit	753	59,197	47,130	123,686
Loss on discontinued operations, net of tax	$(1,174)	$(92,589)	$(73,715)	$(193,461)

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

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

Total discontinued liabilities	$ -	$219,882

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

Note 4 - Property and Equipment

Property and equipment consists of the following:

	June 30, 2013	December 31, 2012
Trucks and vehicles	$23,227,257	$23,933,669
Other equipment	2,783,832	2,781,903
Buildings and improvements	2,328,477	2,403,477
Trucks in process	1,274,275	1,110,356